

WEST PHARMACEUTICAL SERVICES INC  
Form 10-Q  
November 06, 2008

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended September 30, 2008

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  No

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

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

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

As of October 31, 2008, there were 32,715,965 shares of the Registrant's common stock outstanding.

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CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS

(Cautionary Statements Under the Private Securities Litigation Reform Act of 1995)

Our disclosure and analysis in this Form 10-Q contains some forward-looking statements that are based on management's beliefs and assumptions, current expectations, estimates and forecasts. Statements that are not historical facts, including statements that are preceded by, followed by, or that include, words such as "estimate," "expect," "intend," "believe," "plan," "anticipate" and other words and terms of similar meaning are forward-looking statements. West's estimated or anticipated future results, product performance or other non-historical facts are forward-looking and reflect our current perspective on existing trends and information.

Many of the factors that will determine our future results are beyond our ability to control or predict. These statements are subject to known or unknown risks or uncertainties, and therefore, actual results could differ materially from past results and those expressed or implied in any forward-looking statement. You should bear this in mind as you consider forward-looking statements. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise.

Important factors that may affect future results include, but are not limited to, the following:

Revenue and profitability:

- sales demand and our ability to meet that demand;
- competition from other providers in our businesses, including customers' in-house operations, and from lower-cost producers in emerging markets, which can impact unit volume, price and profitability;
- customers' changing inventory requirements and manufacturing plans that alter existing orders or ordering patterns for the products we supply to them;
- the timing, regulatory approval and commercial success of customer products that incorporate our products, including the availability and scope of relevant public and private health insurance reimbursement for prescription products, medical devices and components and medical procedures in which our customers' products are employed or consumed;
  - average profitability, or mix, of products sold in any reporting period;
  - maintaining or improving production efficiencies and overhead absorption;
- the timeliness and effectiveness of capital investments, particularly capacity expansions, including the effects of delays and cost increases associated with construction, availability and cost of capital goods, and necessary internal, governmental and customer approvals of planned and completed projects, and the demand for goods to be produced in new facilities;
- dependence on third-party suppliers and partners, some of which are single-source suppliers of critical materials and products, including our Japanese partner and affiliate Daikyo Seiko, Ltd.;
- the availability and cost of skilled employees required to meet increased production, managerial, research and other needs, including professional employees and persons employed under collective bargaining agreements;

- interruptions or weaknesses in our supply chain, which could cause delivery delays or restrict the availability of raw materials and key bought-in components and finished products;
- raw material price escalation, particularly petroleum-based raw materials, and our ability to pass raw material cost increases on to customers through price increases; and
- claims associated with product quality, including product liability, and the related costs of defending and obtaining insurance indemnifying us for the cost of such claims.

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Other Risks:

- the cost and progress of development, regulatory approval and marketing of new products as a result of our research and development efforts;
- the defense of self-developed or in-licensed intellectual property, including patents, trade and service marks and trade secrets;
- dependence of normal business operations on information and communication systems and technologies provided, installed or operated by third parties, including costs and risks associated with planned upgrades to existing business systems;
  - the effects of a prolonged U.S. or global economic downturn or recession;
- the relative strength of the U.S. dollar in relation to other currencies, particularly the Euro, British Pound, and Japanese Yen;
  - changes in tax law or loss of beneficial tax incentives;
  - the conclusion of unresolved tax positions inconsistent with currently expected outcomes;
- the timely execution and realization of savings anticipated by the restructuring plan announced in December 2007 for certain operations and functions of the Tech Group; and
- significant losses on investments of pension plan assets relative to expected returns on those assets could increase our pension expense and funding obligations in future periods.

We also refer you to the risks associated with our business that are contained in our Annual Report on Form 10-K under Item 1A, “Risk Factors and Cautionary Factors That May Affect Future Results,” as supplemented from time to time in subsequently filed Quarterly Reports on Form 10-Q, and other documents we may file with the Securities and Exchange Commission (“SEC”).

All trademarks and registered trademarks used in this report are the property of West Pharmaceutical Services, Inc. and its subsidiaries, unless noted otherwise.

Exubera® is a registered trademark of Pfizer, Inc.

Crystal Zenith® is a registered trademark of Daikyo Seiko, Ltd.

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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 September 30,		Nine Months Ended September 30,	
	2008	2007	2008	2007
Net sales	\$ 256.2	\$ 242.7	\$ 806.3	\$ 764.0
Cost of goods sold	190.2	178.4	573.3	542.7
Gross profit	66.0	64.3	233.0	221.3
Research and development	4.6	4.1	14.8	11.5
Selling, general and administrative expenses	41.5	37.7	122.5	112.8
Restructuring and other items (Note 2)	2.0	9.6	(2.8)	9.7
Operating profit	17.9	12.9	98.5	87.3
Interest expense	4.3	3.9	12.6	10.6
Interest income	(0.4)	(1.9)	(2.1)	(4.7)
Income before income taxes and minority interests	14.0	10.9	88.0	81.4
Income tax expense (benefit)	0.8	(0.8)	20.0	17.4
Minority interests	0.2	0.1	0.5	0.3
Income from consolidated operations	13.0	11.6	67.5	63.7
Equity in net income of affiliated companies	0.3	0.6	0.8	1.5
Income from continuing operations	13.3	12.2	68.3	65.2
Discontinued operations, net of tax	-	-	-	(0.5)
Net income	\$ 13.3	\$ 12.2	\$ 68.3	\$ 64.7
Net income (loss) per share:				
Basic -				
Continuing operations	\$ 0.41			