WEST PHARMACEUTICAL SERVICES INC
Form 10-Q
November 02, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended September 30, 2007

o 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	**23-1210010**

(State or other jurisdiction of incorporation or organization)	(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 x No o

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

Large accelerated filer x Accelerated filer o Non-accelerated filer o

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

As of September 30, 2007, there were 32,362,835 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 they do not relate strictly to historical facts. We have tried, wherever possible, to identify such statements by using words such as estimate, expect, intend, believe, plan, anticipate and other words and terms of similar meaning in connection with any discussion of future operating or financial performance or condition.

Many of the factors that will determine the Company s future results are beyond the ability of the Company 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. 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 the Company s 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 relevant third-party reimbursement for prescription products, medical devices and components and medical procedures in which these products are employed or consumed;

the ability of Nektar Therapeutics to market the Exubera® Inhalation-Powder insulin device and product and the resolution of the parties obligations under the supply contract between the Company and Nektar consistent with the Company s current expectations;

the timely and successful negotiations of sales contracts with four of the Company s largest customers during the fourth quarter of 2007;

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, including our Japanese partner Daikyo Seiko, Ltd.;

the availability and cost of skilled employees required to meet increased production, managerial, research and other needs of the Company, 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; and

raw-material price escalation, particularly petroleum-based raw materials, and our ability to pass raw-material cost increases on to customers through price increases.

CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS (CONTINUED)

Other Risks:

the development, regulatory approval and marketing of new products as a result of the Company s 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;

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; and

the conclusion of unresolved tax positions consistent with currently expected outcomes.

We also refer you to the risks associated with our business that are contained in our Annual Report on Form 10-K under the caption RISK FACTORS , 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. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise.

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, 2007	2006	Nine Months Ended September 30, 2007	2006
Net sales	$ 242.7	$ 218.4	$ 764.0	$ 681.4
Cost of goods sold	178.4	158.9	542.7	483.1
Gross profit	64.3	59.5	221.3	198.3
Research and development	4.1	2.9	11.5	8.0
Selling, general and administrative expenses	37.7	34.9	112.8	106.1
Other expense, net	9.6	2.0	9.7	4.2
Operating profit	12.9	19.7	87.3	80.0
Loss on debt extinguishment				5.9
Interest expense	3.9	3.1	10.6	10.1
Interest income	(1.9)	(0.4)	(4.7)	(1.6)
Income before income taxes and minority interests	10.9	17.0	81.4	65.6
Provision for income taxes	(0.8)	4.9	17.4	19.4
Minority interests	0.1	0.1	0.3	0.3
Income from consolidated operations	11.6	12.0	63.7	45.9
Equity in net income (loss) of affiliated companies	0.6	(0.2)	1.5	0.9
Income from continuing operations	12.2	11.8	65.2	46.8
Discontinued operations, net of tax		1.5	(0.5)	5.3
Net income	$ 12.2	$ 13.3	$ 64.7	$ 52.1
Net income per share:				
Basic:				
Continuing operations	$ 0.37	$ 0.37	$ 1.98	$ 1.46
Discontinued operations		0.04	(0.01)	0.17
	$ 0.37	$ 0.41	$ 1.97	$ 1.63
Assuming dilution:				
Continuing operations	$ 0.36	$ 0.35	$ 1.86	$ 1.39
Discontinued operations		0.04	(0.01)	0.16
	$ 0.36	$ 0.39	$ 1.85	$ 1.55
Average common shares outstanding	32.7	32.2	32.8	32.0
Average shares assuming dilution	36.8	33.8	36.2	33.6
Dividends declared per common share (1)	$ 0.27	$ 0.13	$ 0.40	$ 0.37

(1) During the third quarter, a $0.13 dividend per common share was declared on July 10, 2007 and paid on August 1, 2007 and a $0.14 dividend per common share was declared on September 20, 2007, to be paid on November 7, 2007.

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)

West Pharmaceutical Services, Inc. and Subsidiaries

(in millions)	September 30, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash, including cash equivalents	$ 151.4	$ 47.1
Accounts receivable, less allowance of $0.6 million and $0.9 million, respectively	136.8	109.5
Inventories	119.7	97.5
Deferred income taxes	5.8	5.3
Other current assets	22.9	22.3
Total current assets	436.6	281.7
Property, plant and equipment	837.1	757.4
Less accumulated depreciation and amortization	408.6	372.7
Property, plant and equipment, net	428.5	384.7
Investments in affiliated companies	30.7	29.7
Goodwill	107.3	102.8
Pension asset	10.3	12.1
Deferred income taxes	53.8	29.8
Intangible assets, net	67.6	66.3
Other assets	20.5	11.1
Total Assets	$ 1,155.3	$ 918.2
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Notes payable and other current debt	$ 0.5	$ 0.5
Accounts payable	51.8	61.2
Pension and other postretirement benefits	1.7	1.6
Accrued salaries, wages and benefits	43.4	35.3
Income taxes payable	13.6	17.7
Taxes other than income	16.8	6.5
Deferred income taxes	2.2	2.7
Other current liabilities	32.2	31.4
Total current liabilities	162.2	156.9
Long-term debt	393.1	235.8
Deferred income taxes	44.5	43.5
Pension and other postretirement benefits	43.8	41.2
Other long-term liabilities	24.8	21.5
Total Liabilities	668.4	498.9
Commitments and contingencies		
Minority interests	5.2	4.8
Shareholders equity	481.7	414.5
Total Liabilities and Shareholders Equity	$ 1,155.3	$ 918.2

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY (UNAUDITED)

West Pharmaceutical Services, Inc. and Subsidiaries

(in millions, except per share data)	Common Stock Number of shares	Common Stock	Capital in excess of par value	Retained earnings	Accumulated other comprehensive income (loss)	Treasury Stock Number of shares	Treasury Stock	Total
Balance, December 31, 2006	34.3	$ 8.6	$ 52.8	$ 375.6	$ 10.6	(1.4)	$ (33.1)	$ 414.5
Cumulative effect of adoption of FIN 48 (see Note 4)				21.6				21.6
Net income				64.7				64.7
Stock-based compensation			5.3				(0.4)	4.9
Shares issued under stock plans			2.0			0.4	2.9	4.9
Shares purchased under stock repurchase program						(0.7)	(28.3)	(28.3)
Shares repurchased for employee tax withholdings			(1.0)			(0.1)	(2.6)	(3.6)
Excess tax benefit from stock plans			3.2					3.2
Cash dividends declared ($0.40 per share)				(13.1)				(13.1)
Changes other comprehensive income					12.9			12.9
Balance, September 30, 2007	34.3	$ 8.6	$ 62.3	$ 448.8	$ 23.5	(1.8)	$ (61.5)	$ 481.7

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

West Pharmaceutical Services, Inc. and Subsidiaries

(in millions)	Nine Months Ended September 30, 2007	2006
Cash flows from operating activities:		
Net income	$ 64.7	$ 52.1
Loss (gain) from discontinued operations, net of tax	0.5	(5.3)
Depreciation	38.4	35.9
Amortization	3.8	3.1
Other non-cash items, net	8.1	15.9
Changes in assets and liabilities	(45.6)	(9.5)
Net cash provided by operating activities	69.9	92.2
Cash flows from investing activities:		
Capital expenditures	(69.0)	(47.2)
Acquisition of patents and other assets	(4.2)	
Proceeds from sale of investment	0.7	
Other, net	0.1	0.3
Net cash used in investing activities	(72.4)	(46.9)
Cash flows from financing activities:		
Issuance of 4% convertible debt, net of costs	156.4	
Prepayment of senior notes		(100.0)
Issuance of senior unsecured notes		100.1
Repayments under revolving credit agreements, net	(14.7)	(47.8)
Changes in other debt, including overdrafts	0.4	(1.1)
Dividend payments	(12.8)	(11.6)
Excess tax benefit from stock option exercises	3.2	
Shares purchased under stock repurchase program	(28.3)	
Shares repurchased for employee tax withholdings	(3.6)	(1.3)
Issuance of common stock	3.7	5.3
Net cash provided by (used in) financing activities	104.3	(56.4)
Cash flows provided by operating activities of discontinued operations		4.1
Net cash provided by discontinued operations		4.1
Effect of exchange rates on cash	2.5	3.0
Net increase (decrease) in cash and cash equivalents	104.3	(4.0)
Cash, including cash equivalents at beginning of period	47.1	48.8
Cash, including cash equivalents at end of period	$ 151.4	$ 44.8

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Summary of Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements included herein are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting and Securities and Exchange Commission (SEC) regulations. The year-end condensed balance sheet data was derived from audited financial statements. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles 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 presentation of the financial position, results of operations, cash flows and the change in shareholders equity for the periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year. The condensed consolidated financial statements for the three and nine month periods ended September 30, 2007 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), appeari in our 2006 Annual Report on Form 10-K.

Reclassification

Consistent with our renewed emphasis on innovation, we began reporting a separate research and development line item on our income statement in 2007. Amounts previously reported as part of selling, general and administrative expense and cost of goods sold have been reclassified to conform to current period classifications.

Note 2: Discontinued Operations

During the nine months ended September 30, 2007, we recorded a $0.5 million provision for claims resulting from the 2005 divestiture of our former drug delivery business. The nine month period of 2006 includes $3.8 million as income from discontinued operations, related to the resolution of our claim for certain tax benefits associated with the 2001 disposition of our former contract manufacturing and packaging business. In the third quarter of 2006, we received $0.3 million in interest income connected with this tax claim, and recognized a $1.2 million favorable adjustment to tax accruals associated with our former Drug Delivery Systems segment as a result of the closure of the 2002 U.S. federal tax audit year.

Note 3: Other Expense

Other expense for the three and nine month periods ended September 30 was as follows:

(in millions)	Three Months Ended September 30, 2007	2006	Nine Months Ended September 30, 2007	2006
Foreign exchange losses	$ 0.4	$ 0.2	$ 0.1	$ 0.4
Asset impairment charges		1.6		1.6
Loss on sales of equipment	0.4		0.9	0.8
Brazil tax contingencies	8.6		8.6	
Other, net	0.2	0.2	0.1	1.4
	$ 9.6	$ 2.0	$ 9.7	$ 4.2

In the third quarter of 2007, we increased our accrual for a series of social security, excise and other tax contingencies in Brazil by $8.6 million. The increased provision followed a detailed review of several tax cases pending in the Brazilian courts which now indicate that it is probable that the positions taken on previous tax returns, some of which date back to the late 1990 s, will not be sustained. We had previously accrued $9.1 million over the course of the years in question, based on our best estimate of the contingent tax liabilities at that time. Based on current estimates including possible penalties and interest through September 30, 2007, we have increased our accrued liabilities for these contingencies to $17.7 million.

Other, net expense for the nine month period ended September 30, 2007 also includes a $0.4 million gain recorded by the Tech Group segment for the sale of an investment in a tool shop located in Ireland.

During the third quarter of 2006, our Pharmaceutical Systems segment recorded a $1.6 million charge connected with the impairment of assets involved in the production and licensing of one of our reconstitution products following a substantial reduction in projected orders. Other expense for the nine month period ended September 30, 2006 also included a $0.3 million write-off of a discontinued software project and a $0.5 million write-off of a prepaid royalty that was not expected to be recovered against future sales of the reconstitution product.

Note 4: Income Taxes

The tax rate used for interim periods is the estimated annual effective consolidated tax rate, based on the current estimate of full year results. Items not related to pre-tax income in the current year are recognized as discrete items in the period in which they were deemed more likely than not to be realized. In the third quarter of 2007, we reversed a $3.2 million valuation allowance related to foreign tax credits generated in previous periods that was initially provided due to uncertainty in the generation of sufficient taxable income in the U.S. In addition, our third quarter 2007 results include a $0.8 million tax benefit resulting from the closure of the 2003 U.S. federal tax audit year. Our results for the nine month period of 2007 also include a tax benefit of $2.5 million resulting from the revision of certain tax planning strategies and the completion of related documentation supporting research and development credits related to prior year tax returns. Excluding the benefit of these discrete items, our tax expense for the first nine months of 2007 was $23.9 million, representing our full year effective tax rate of approximately 29% on pre-tax income.

In the third quarter of 2006, we recorded a net $0.7 million favorable adjustment to tax expense primarily resulting from the closure of the 2002 U.S. federal tax audit year. The nine month period of 2006 also includes a $0.4 million tax benefit resulting from a tax refund associated with the disposition of our former plastic molding facility in Puerto Rico.

On January 1, 2007, we adopted Financial Accounting Standards Board (FASB) Interpretation No. 48, Accounting for Uncertainty in Income Taxes , an interpretation of FASB Statement No. 109, Accounting for Income Taxes (FIN 48). This interpretation clarifies the accounting for uncertainty in income taxes recognized in financial statements. FIN 48 prescribes a more-likely-than-not threshold for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The adoption of FIN 48 resulted in the recognition of net tax assets that met the more-likely-than-not threshold of $21.6 million and is reflected as an adjustment to the opening balance of retained earnings for 2007.

As of January 1, 2007, following the adoption of FIN 48, we had approximately $12.8 million of total gross unrecognized tax benefits, which, if recognized, would favorably impact the effective income tax rate. During the second quarter of 2007, our unrecognized tax benefits increased by $0.5 million, as a result of tax positions taken during that period. During the third quarter of 2007, we recorded a reduction of our unrecognized tax benefits by $0.9 million, primarily due to the closure of the 2003 U.S. federal tax audit year, as mentioned above. We anticipate that the amount of unrecognized tax benefits may change in the next 12 months; however, due to uncertainties in timing, it is not reasonably possible to estimate a range of the possible change.

Interest costs and penalties related to income taxes are classified as interest expense and other expense, respectively, in the Company s financial statements. As of the adoption date, we had accrued interest of $0.6 million, which increased by $0.1 million during the nine months ended September 30, 2007.

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 the third quarter of 2007, the statute of limitations for the 2003 U.S. federal tax year lapsed, leaving tax years 2004 through 2006 open to examination in the U.S. federal tax jurisdiction. We are also subject to examination in various state and foreign jurisdictions for tax years 2000 through 2006.

Note 5: Comprehensive Income

Comprehensive income for the three and nine month periods ended September 30 was as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2007**	**2006**	**2007**	**2006**
Net income	$ 12.2	$ 13.3	$ 64.7	$ 52.1
Other comprehensive income, net of tax				
Foreign currency translation adjustments	8.0	5.4	13.1	14.1
Pension and postretirement liability adjustments	0.1	(0.2)	0.4	(0.5)
Unrealized (losses) gains on derivatives	(1.5)	(1.7)	(0.6)	0.5
Other comprehensive income, net of tax	6.6	3.5	12.9	14.1
Comprehensive income	$ 18.8	$ 16.8	$ 77.6	$ 66.2

Note 6: Convertible Debentures

On March 14, 2007, the Company issued $150.0 million of Convertible Junior Subordinated Debentures (debentures) due March 15, 2047. On April 3, 2007, the underwriters exercised an over-allotment option resulting in the issuance of an additional $11.5 million of debentures, bringing the total aggregate principal amount outstanding to $161.5 million. The debentures bear interest at a rate of 4% annually which is payable on March 15 and September 15 of each year. The debentures are unsecured obligations and rank junior to all of our existing and future senior debt and are structurally subordinated to all indebtedness and other obligations of our subsidiaries.

The debentures are convertible into shares of the Company s common stock at an initial conversion rate, subject to adjustment, of 17.8336 shares per $1,000 of principal amount, which equals a conversion price of approximately $56.07 per share. The holders may convert their debentures at any time prior to maturity. On or after March 20, 2012, if our common stock closing price exceeds 150% of the then prevailing conversion price for at least 20 trading days during any 30 consecutive trading day period, we have the option to cause the debentures to be automatically converted into West shares at the prevailing conversion rate. As of September 30, 2007, no debentures were converted. Accrued interest payable at September 30, 2007 was $0.3 million and is recorded in accrued expenses.

Total net proceeds from the offering were $156.4 million. We have or may use the proceeds for general corporate purposes, which include capital expenditures, working capital, possible acquisitions of other businesses, technologies or products, repaying debt, and repurchasing our capital stock. In connection with the offering, the Company incurred debt issuance costs in the amount of $5.1 million, consisting of underwriting discounts and commissions, legal and other professional fees. These costs are recorded as a noncurrent asset and are being amortized as additional interest expense over the term of the debentures.

Note 7: Stock Repurchase Program

On August 8, 2007, the Company s Board of Directors announced that it had authorized a share repurchase program of up to one million shares of the Company s common stock. The program will allow the Company to repurchase its shares on the open market or in privately negotiated transactions from time to time in accordance with the requirements of the Securities and Exchange Commission. The timing of such transactions

will depend on a variety of factors, including market conditions, but the program is expected to be completed within one year. During the three months ended September 30, 2007, the Company purchased 691,300 shares of its common stock under this program at a cost of $28.3 million, or an average price of $40.93 per share.

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 September 30,		Nine Months Ended September 30,	
(in millions)	**2007**	**2006**	**2007**	**2006**
Income from continuing operations	$ 12.2	$ 11.8	$ 65.2	$ 46.8
Discontinued operations, net of tax		1.5	(0.5)	5.3
Net income, as reported, for basic net income per share	12.2	13.3	64.7	52.1
Plus: interest expense on convertible debt, net of tax	1.1		2.4	
Net income, for diluted net income per share	$ 13.3	$ 13.3	$ 67.1	$ 52.1
Weighted average common shares outstanding for basic net income per share	32.7	32.2	32.8	32.0
Assumed stock options exercised and awards vested, based on the treasury stock method	1.2	1.6	1.3	1.6
Assumed conversion of convertible debt, based on the if-converted method	2.9		2.1	
Weighted average shares outstanding for diluted net income per share	36.8	33.8	36.2	33.6

Options to purchase 0.3 million shares of common stock were excluded from the computation of diluted earnings per share for both the three and nine month periods ended September 30, 2007 and 2006, as their impact would be antidilutive.

Note 9: Segment Information

Net sales and operating profit by reportable segment, corporate and other unallocated costs were as follows:

	Three Months Ended September 30,		Nine Months Ended September 30,	
(in millions)	**2007**	**2006**	**2007**	**2006**
Net Sales				
Pharmaceutical Systems	$ 173.8	$ 153.7	$ 554.5	$ 480.1
Tech Group	71.4	66.9	218.1	209.1
Eliminations	(2.5)	(2.2)	(8.6)	(7.8)
Net Sales	$ 242.7	$ 218.4	$ 764.0	$ 681.4
Operating Profit				
Pharmaceutical Systems	$ 25.9	$ 26.6	$ 110.4	$ 100.4
Tech Group	2.9	3.5	9.1	13.1
Brazil tax contingencies	(8.6)		(8.6)	
Corporate costs	(4.9)	(6.1)	(15.7)	(17.7)
Stock-based compensation costs	(1.0)	(2.5)	(3.4)	(9.4)
Domestic pension expense	(1.4)	(1.8)	(4.5)	(6.4)
Operating profit	12.9	19.7	87.3	80.0
Loss on debt extinguishment				(5.9)

Interest expense	(3.9)	(3.1)	(10.6)	(10.1)
Interest income	1.9	0.4	4.7	1.6
Income before income taxes	$ 10.9	$ 17.0	$ 81.4	$ 65.6

In February 2007, our Pharmaceutical Systems segment acquired a patent and related assets, for total cash consideration of $4.2 million. The estimated fair value of the patent is $3.9 million and is being amortized over its remaining useful life, which was determined to be approximately 14 years. The remaining $0.3 million represents property, plant and equipment. Amortization expense for the patent was $0.1 million and $0.2 million for the three and nine month periods ended September 30, 2007, respectively.

Note 10: Inventories

Inventories are stated at the lower of cost or market. Cost is determined using the first-in-first-out (FIFO) method. Inventory balances are as follows:

(in millions)	September 30, 2007	December 31, 2006
Finished goods	$ 47.2	$ 43.4
Work in process	17.7	13.4
Raw materials	54.8	40.7
	$ 119.7	$ 97.5

Note 11: Stock-Based Compensation

In the first quarter of 2007, we granted 331,642 stock options at a weighted average exercise price of $44.96 per share to key employees under the 2004 Stock-Based Compensation Plan (the 2004 Plan). The exercise price represents the grant date fair value of our stock. Stock options granted to employees vest in equal annual increments over 4 years of continuous service. All awards expire ten years from the date of grant. The weighted average grant date fair value of options granted during the first quarter of 2007 was $15.43 as determined by the Black-Scholes option valuation model using the following weighted average assumptions: a risk-free interest rate of 6.25%; expected life of 5 years; stock volatility based on history of 30.3%; and a dividend yield of 1.2%.

We also granted 94,571 performance vesting share (PVS) rights at a weighted average grant date fair value of $44.96 to key employees under the 2004 Plan in the first quarter of 2007. Each PVS right entitles the holder to one share of Company stock if annual growth rate of revenue and return on invested capital (ROIC) targets are achieved over a three-year period. PVS rights are granted at target levels assuming 100% achievement of the revenue-growth and ROIC goals over the performance period. The actual number of shares issued may vary from 0% to 200% of an employee s target level. The fair value of PVS rights is based on the market price of the Company s stock at the grant date and is recognized as an expense over the performance period.

On May 1, 2007, the 2007 Omnibus Incentive Compensation Plan (the 2007 Plan) was approved by the Company s shareholders. All remaining shares under the 2004 Plan were extinguished upon adoption of the 2007 Plan. Awards granted under the 2004 Plan remain outstanding under that plan until settled. The 2007 Plan provides for the granting of stock options, stock appreciation rights, restricted stock, stock units, and performance awards to employees and non-employee directors. A committee of the Board of Directors determines the terms and conditions of awards to be granted. Vesting requirements vary by award.

At inception, there were 4,100,000 shares of common stock available for issuance under the 2007 Plan. Stock options and stock appreciation rights reduce the number of shares available by one share for each share granted. All other awards under the 2007 Plan will reduce the total number of shares available for grant by an amount equal to 2.5 times the number of shares awarded. If any awards made under the 2004 Plan would entitle a plan participant to an amount of Company stock in excess of the target amount, the additional shares (up to a maximum threshold amount) will be distributed under the 2007 Plan.

In the second quarter of 2007, there were 18,900 deferred stock units granted to non-employee directors under the 2007 Plan. There were no additional grants during the third quarter of 2007. As of September 30, 2007, there were approximately 4,042,998 shares remaining in the 2007 Plan for future grants.

Note 12: Benefit Plans

The components of net periodic benefit cost for the three month period ended September 30 are as follows:

	Pension benefits		Other retirement benefits		Total	
(in millions)	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Service cost	$ 1.5	$ 1.4	$ 0.1	$ 0.3	$ 1.6	$ 1.7
Interest cost	3.3	2.9	0.3	0.2	3.6	3.1
Expected return on assets	(4.0)	(3.7)			(4.0)	(3.7)
Amortization of prior service (credit) cost	(0.3)	0.2	0.1		(0.2)	0.2
Recognized actuarial losses	0.8	1.0			0.8	1.0
Net periodic benefit cost	$ 1.3	$ 1.8	$ 0.5	$ 0.5	$ 1.8	$ 2.3
U.S. plans	$ 0.9	$ 1.3	$ 0.5	$ 0.5	$ 1.4	$ 1.8
International plans	0.4	0.5			0.4	0.5
Net periodic benefit cost	$ 1.3	$ 1.8	$ 0.5	$ 0.5	$ 1.8	$ 2.3

The components of net periodic benefit cost for the nine month period ended September 30 are as follows:

	Pension benefits		Other retirement benefits		Total	
(in millions)	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
Service cost	$ 5.3	$ 4.3	$ 0.7	$ 0.8	$ 6.0	$ 5.1
Interest cost	9.8	9.5	0.7	0.6	10.5	10.1
Expected return on assets	(12.1)	(11.1)			(12.1)	(11.1)
Amortization of transition obligation	0.1	0.1			0.1	0.1
Amortization of prior service (credit) cost	(0.9)	0.6	0.1	0.1	(0.8)	0.7
Recognized actuarial losses	1.9	3.0			1.9	3.0
Net periodic benefit cost	$ 4.1	$ 6.4	$ 1.5	$ 1.5	$ 5.6	$ 7.9
U.S. plans	$ 3.0	$ 4.9	$ 1.5	$ 1.5	$ 4.5	$ 6.4
International plans	1.1	1.5			1.1	1.5
Net periodic benefit cost	$ 4.1	$ 6.4	$ 1.5	$ 1.5	$ 5.6	$ 7.9

Note 13: Commitments and Contingent Liabilities

We have accrued the estimated cost of environmental compliance expenses related to soil or ground water contamination at current and former manufacturing facilities. We believe the accrued liability of $0.5 million at September 30, 2007 is sufficient to cover the future costs of these remedial actions.

Note 14: New Accounting Standards

In February 2007, the FASB issued Statement of Financial Accounting Standard No. 159, The Fair Value Option for Financial Assets and Liabilities Including an amendment of FASB Statement No. 115 (SFAS No. 159). This standard permits an entity to elect fair value as the initial and subsequent measurement attribute for many financial assets and liabilities. Entities electing the fair value option are required to distinguish, on the face of the statement of financial position, the fair value of assets and liabilities for which the fair value option has been elected and similar assets and liabilities measured using another measurement attribute. The adjustment to reflect the difference between the fair value and the carrying amount would be accounted for as a cumulative-effect adjustment to retained earnings as of the date of the initial adoption. This standard is effective for fiscal years beginning after November 15, 2007. Management does not believe that the adoption of SFAS No. 159 will have a material impact on our financial statements.

Note 15: Subsequent Event

Our Tech Group segment is one of two contract manufacturers for the inhalation device used with Exubera®, a pulmonary insulin product, developed by our customer Nektar Therapeutics and licensed to Pfizer, Inc. On October 18, 2007, Pfizer announced that it had decided to discontinue marketing the Exubera® product, returning the marketing rights to Nektar. We believe our investments related to this project, which include approximately $15.0 million of current assets and production facilities as of September 30, 2007, and any associated severance or lease termination costs are fully recoverable through our contract with Nektar. In addition to the assets noted previously, we have a $13.1 million intangible asset which will be evaluated for potential impairment as more information becomes available.

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

Management s discussion and analysis should be read in conjunction with the condensed consolidated financial statements and accompanying notes.

COMPANY OVERVIEW

We are a global pharmaceutical technology company that applies proprietary materials science, formulation research and manufacturing innovation to the quality, therapeutic value, development speed and rapid market availability of pharmaceuticals, biologics, vaccines and consumer products. We have manufacturing locations in North and South America, Europe and Asia, with affiliates in Mexico and Japan. Our business is conducted through two segments: Pharmaceutical Systems and Tech Group . Our Pharmaceutical Systems segment focuses on primary packaging components and systems for injectable drug delivery, including stoppers and seals for vials, and closures and disposable components used in syringe, intravenous (IV) and blood collection systems. The Tech Group operating segment offers custom contract manufacturing solutions utilizing plastic injection molding processes targeted to the healthcare and consumer industries. Our global customer base includes the world s leading manufacturers of pharmaceuticals, biologics and medical devices.

The long-term business drivers for our Pharmaceutical Systems segment s products remain strong as we continue to see growth opportunities in prefillable syringe and other delivery systems which require advanced packaging. Increasing regulatory and safety requirements, as well as demographic trends towards an aging overall population are also favorable to the demand for our products. However, our near-term sales and operating profit growth will be constrained due to capacity availability particularly in Europe and other issues which affect the sales of our customers products, particularly in the biotechnology field. We also face increasing competition for our lower margin disposable medical product components and are in the process of renegotiating several key multi-year customer supply contracts. The outcome of these negotiations, which we hope to finalize by the end of 2007, could also affect future operating results. Our short term profitability will also reflect increased research and development spending as we pursue innovative strategic platforms in prefillable syringe, injectable containers, advanced injection systems and safety and administration systems. We remain committed to expanding our manufacturing capacity and geographic scope of our operations. Our production facilities in Europe are operating at or near full capacity and we have initiated plant expansion programs at the majority of our existing European and Asian plants designed to meet our customers increasing demand for our products. We also continue to move forward with our plans to establish two manufacturing facilities in China, and are reviewing strategies to increase our presence in India.

Our Tech Group segment is one of two contract manufacturers for the inhalation delivery device used with Exubera®, a pulmonary insulin product developed by our customer Nektar Therapeutics and licensed to Pfizer Inc. On October 18, 2007, Pfizer announced that it had decided to discontinue marketing the Exubera® product, and would return the worldwide rights to Nektar. We believe that the majority of our investments in current assets and equipment, totaling approximately $15 million at September 30, 2007, and any associated severance or lease termination costs are recoverable through our contract with Nektar. We will continue to work with and support Nektar as they determine how to proceed with this product line in light of these changes. In addition to the current assets and equipment noted previously, we have a $13.1 million intangible asset associated with our contract with Nektar which will be evaluated for potential impairment as more information becomes available.

During September 2007, the Tech Group segment opened a new facility in Michigan, and we anticipate an increase in revenues and the cessation of start-up related costs at this site as we move into the fourth quarter of 2007 and into 2008. Our Tech Group segment should also benefit from our strategy to develop proprietary products, including tooling and sampling projects in support of our innovation initiatives.

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Consistent with our renewed emphasis on innovation, we began reporting a separate research and development line item on our income statement in 2007. Amounts previously reported as part of selling, general and administrative expense and cost of goods sold have been reclassified to conform to current period classifications.

NET SALES

The following table summarizes net sales by reportable segment:

Net sales:	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in millions)	**2007**	**2006**	**2007**	**2006**
Pharmaceutical Systems	$ 173.8	$ 153.7	$ 554.5	$ 480.1
Tech Group	71.4	66.9	218.1	209.1
Intersegment sales	(2.5)	(2.2)	(8.6)	(7.8)
Total net sales	$ 242.7	$ 218.4	$ 764.0	$ 681.4

Consolidated third quarter 2007 net sales increased by $24.3 million, or 11.2%, over those achieved in the third quarter of 2006. Foreign currency translation accounted for $8.4 million, or 3.9 percentage points, of the sales growth. Excluding foreign currency translation, third quarter 2007 net sales increased $15.9 million or 7.3% over the prior year quarter.

In the Pharmaceutical Systems segment, third quarter 2007 net sales were $20.1 million, or 13.1%, favorable to those achieved in the prior year quarter. Foreign currency translation accounted for $7.6 million, or 5.0 percentage points, of the increase. Excluding foreign currency translation, third quarter 2007 net sales in the Pharmaceutical Systems segment were $12.5 million, or 8.1%, above those achieved in the third quarter of 2006. Price increases accounted for $3.5 million, or 2.3 percentage points, of the quarter-to-quarter sales increase. Unit volumes increased approximately 6% over the prior year quarter. All of our geographic regions experienced solid sales growth with Europe $5.6 million, North America $4.5 million, South America $1.7 million and Asia $0.7 million ahead of third quarter 2006 results, at constant exchange rates. Approximately 60% of our third quarter sales improvement was due to increased sales of stoppers used in pharmaceutical packaging, many of which incorporate our advanced coating treatments and our Westar® Ready-to-Sterilize process. Sales of pre-filled injection system components contributed 26% of our third quarter sales increase. The remaining increase consisted of higher sales of reconstitution systems and Flip-off® seals as well as increased revenue from tooling and development projects.

Tech Group segment third quarter 2007 net sales were $4.5 million, or 6.8% above those reported in the prior year. Foreign currency translation accounted for $0.8 million, or 1.2 percentage points, of the increase. Excluding foreign currency translation, third quarter 2007 net sales in the Tech Group segment were $3.7 million, or 5.6 %, above those achieved in the third quarter of 2006. Price increases accounted for 0.6 percentage points of the quarter-to-quarter sales increase. The Tech Group segment revenue increase was led by a $3.2 million increase in sales of a starter kit for a weight loss product, which our customer launched in June of 2007. The Tech Group segment also benefited from a $2.1 million sales increase in components used in an intra-nasal delivery system, a $1.1 million increase in sales of devices used in cardiac surgery, and several medical device and over-the-counter healthcare packaging initiatives aggregating to $1.9 million in additional revenue. These sales increases were partially offset by a $2.0 million decline in tooling project revenue, a $1.7 million decrease due to customer inventory management on packaging for a personal care product, and a $0.9 million decrease in sales of the Exubera® inhalation device.

Consolidated net sales for the nine months ended September 30, 2007 increased by $82.6 million, or 12.1%, compared to the first nine months of 2006. Foreign currency translation accounted for $27.9 million, or 4.1 percentage points, of the sales growth. Excluding foreign currency

translation, consolidated 2007 year-to-date net sales increased $54.7 million, or 8.0%, over the prior year.

The Pharmaceutical Systems segment contributed $74.4 million of the year-to-date net sales increase, including $25.7 million resulting from favorable foreign currency translation. Excluding foreign currency translation, Pharmaceutical Systems net sales were $48.7 million, or 10.1%, above prior year levels. Sales price increases contributed approximately 2.4 percentage points of the year-to-date net sales increase over the prior year. The Pharmaceutical Systems sales growth was strong in all geographical regions; with sales in our North American region 10.8% above those achieved in the nine month period ended September 30, 2006. The U.S. sales were driven by strong demand for serum stoppers used in vial packaging for vaccines, injectable treatments for chronic diseases, and packaging for biotechnology company products. Sales in our European operations, excluding the effects of foreign exchange rates, were 9.2% above those recorded in the first nine months of 2006, led by increased demand for pre-filled injection system components.

Tech Group segment year-to-date net sales were $9.0 million above prior year levels, $2.2 million of which resulted from foreign currency translation. Excluding foreign currency translation, Tech Group segment net sales were $6.8 million, or 3.2%, above prior year levels. Price increases contributed approximately 0.9 percentage points of the sales increase in the Tech Group segment. The Tech Group segment sales increase included a $7.1 million increase in sales to Nektar of the Exubera® device resulting from the timing of the product launch by Pfizer in the United States earlier this year. Year-to-date Tech group segment sales also benefited from strong sales of weight loss product packaging, an intra-nasal delivery system and surgery devices, but these were largely offset by a $13.3 million decline in revenue from tooling and design projects and $4.3 million decrease in sales of consumer products.

GROSS PROFIT

The following table summarizes our gross profit and related gross margins by reportable segment:

Gross profit:	**Three Months Ended September 30,**		**Nine Months Ended September 30,**	
($ in millions)	**2007**	**2006**	**2007**	**2006**
Pharmaceutical Systems Segment				
Gross Profit	$ 55.2	$ 50.7	$ 194.1	$ 168.7
Gross Margin	31.8%	33.0%	35.0%	35.1%
Tech Group Segment				
Gross Profit	$ 9.1	$ 8.8	$ 27.2	$ 29.6
Gross Margin	12.7%	13.1%	12.5%	14.2%
Consolidated gross profit	$ 64.3	$ 59.5	$ 221.3	$ 198.3
Consolidated gross margin	26.5%	27.2%	29.0%	29.1%

Third quarter 2007 consolidated gross profit increased by $4.8 million over the 2006 third quarter, consisting of a $4.5 million increase in Pharmaceutical Systems segment gross profit and a $0.3 million increase in Tech Group segment gross profit.

In the Pharmaceutical Systems segment, our third quarter 2007 gross margin declined by 1.2 percentage points from that achieved in the 2006 third quarter. Sales price increases largely offset related material price and labor cost increases. Overall volume and mix variances combined were 0.7 points favorable to the prior year quarter, but were more than offset by unfavorable efficiency, production and inventory provision variances. The overall decline in gross margin primarily reflects higher plant overhead costs including the addition of engineering and other staff in support of our expansion into China, increased manufacturing and other costs in Germany resulting from higher sales volumes, and additional engineering and production support personnel in the United States. Higher depreciation charges on machinery and equipment upgrades also contributed to the decrease in Pharmaceutical Systems gross margin.

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In the Tech Group segment, gross margins declined by 0.4 percentage points in the comparison of third quarter 2007 results to 2006. Higher sales volumes contributed a 1.4 point improvement to Tech Group segment gross margins. This was more than offset by a 1.8 point decrease in our margins resulting from continuing high plant overhead costs connected to the initiation of production at the new facility in Michigan, and costs from the former facility, which we exited in October 2007. We expect the profitability of our Michigan operations to improve during the fourth quarter of 2007, and to return to positive gross profit contribution in the first quarter of 2008.

For the nine month period ended September 30, 2007, gross profit was $23.0 million above that reported in the 2006 nine month period with consolidated gross margins roughly even with prior year levels. The Pharmaceutical Systems segment contributed $25.4 million of the gross profit increase. Overall price increases were sufficient to offset material and labor cost increases. Sales volume and product mix variances were 0.9 points favorable to the prior year period, almost offsetting the 1.0 point unfavorable impact of higher plant overhead costs. Tech Group segment gross profit and gross margins declined $2.4 million and 1.7 percentage points, respectively, from those achieved in the first nine months of 2006. Overall volume variances were favorable by 1.2 margin points despite lower utilization of our tooling capacity. However, incremental costs associated with the relocation and start-up of our new facility in Michigan decreased gross margin by 2.0 margin points, and material price, labor, utility and other costs exceeded sales price increases by 0.9 margin points.

RESEARCH AND DEVELOPMENT (R&D) COSTS

Research and development (R&D): ($ in millions)	Three Months Ended September 30, 2007	2006	Nine Months Ended September 30, 2007	2006
Pharmaceutical Systems segment	$ 3.6	$ 2.3	$ 9.9	$ 6.1
Tech Group segment	0.5	0.6	1.6	1.9
Total R&D expense	$ 4.1	$ 2.9	$ 11.5	$ 8.0

At the end of 2006, we created an innovation group responsible for seeking new opportunities in injectable packaging and delivery systems, most of which will be manufactured by our Tech Group segment and marketed by our Pharmaceutical Systems segment. The overall increase in 2007 R&D costs reflects the formation of this new team, and is mostly allocated to our Pharmaceutical Systems segment. R&D spending in our Tech Group segment declined slightly versus that incurred in 2006, primarily due to the discontinuation of a specific plastic packaging initiative and the centralization of R&D efforts under our new innovation group. We continue to expect to spend approximately $17 million in total R&D costs during 2007, as compared to full year 2006 R&D costs of $11.1 million.

SELLING, GENERAL AND ADMINISTRATIVE (SG&A) COSTS

The following table summarizes SG&A costs by reportable segment including corporate and unallocated costs:

Selling, general and administrative costs (SG&A): ($ in millions)	Three Months Ended September 30, 2007	2006	Nine Months Ended September 30, 2007	2006
Pharmaceutical Systems SG&A costs	$ 25.0	$ 19.8	$ 72.7	$ 58.3
Pharmaceutical Systems SG&A as a % of segment net sales	*14.4%*	*12.9%*	*13.1%*	*12.1%*
Tech Group SG&A costs	$ 5.4	$ 4.7	$ 16.5	$ 14.3
Tech Group SG&A as a % of segment net sales	*7.6%*	*7.0%*	*7.6%*	*6.8%*

Corporate costs:				
General corporate costs	4.9	6.1	15.7	17.7
Stock-based compensation expense	1.0	2.5	3.4	9.4
U.S. pension plan expense	1.4	1.8	4.5	6.4
Total Selling, General & Administrative costs	$ 37.7	$ 34.9	$ 112.8	$ 106.1
Total SG&A as a % of total net sales	*15.5%*	*16.0%*	*14.8%*	*15.6%*

Consolidated SG&A expenses for the three and nine month periods ended September 30, 2007 were $2.8 million and $6.7 million, respectively, above those recorded in the corresponding periods of 2006. Foreign currency translation accounted for $1.1 million and $3.2 million of the increase in the three and nine month period comparisons, respectively.

In the Pharmaceutical Systems segment, third quarter 2007 SG&A expenses increased by $5.2 million over the prior year third quarter. Approximately $1.9 million of the increase was compensation related including increased staffing of sales, strategic marketing and quality assurance functions, the impact of annual salary increases, and severance provisions. The remaining increase consists of higher professional services costs of $1.5 million related to the implementation of new information systems in the United States and higher sales commission charges, unfavorable foreign currency translation totaling $1.0 million, and other costs totaling $0.8 million primarily related to higher insurance, travel and distribution expenses. For the nine month period ended September 30, 2007, Pharmaceutical Systems segment SG&A costs were $14.4 million higher than the prior year period. Employee compensation costs contributed $5.5 million of the increase, with professional service costs ($3.9 million), foreign currency translation ($3.1 million), depreciation ($0.5 million) and other costs ($1.4 million) accounting for the remaining increase over the first nine months of 2006, for the same factors as addressed above.

Third quarter 2007 SG&A costs in the Tech Group segment were $0.7 million above the prior year third quarter. Tech Group segment SG&A costs for the nine month period ended September 30, 2007 were $2.2 million above 2006. Increased staffing levels accounted for $0.3 million and $1.1 million of the increase in the three and nine month period comparisons, respectively. Higher sales commissions and prior period bad debt recoveries account for the majority of the remaining three and nine month period increase.

General corporate SG&A costs include executive compensation and other costs, Board of Directors compensation, legal, compliance, finance and communication expenses. These costs were $1.2 million and $2.0 million, respectively, below those incurred in the prior year quarter and nine month periods, primarily due to lower incentive compensation costs and lower environmental compliance costs.

Stock-based compensation costs for the third quarter of 2007 decreased by $1.5 million from the 2006 third quarter, due primarily to a decrease in West stock-price indexed compensation costs. West s stock price decreased $5.49 per share during the third quarter of 2007 as compared to an increase of $2.99 per share during the third quarter of 2006. In the comparison of our first nine months of 2007 to 2006, stock compensation costs declined by $6.0 million. Our stock price decreased $9.57 per share during the first nine months of 2007, closing at $41.66 per share on September 30, 2007. In 2006, our stock price increased $14.24 per share closing at $39.27 per share at September 30, 2006. Our deferred compensation plans held approximately 246,000 and 285,000 stock units at September 30 2007 and 2006, respectively. The resulting change in the fair value of our deferred stock unit liabilities accounts for almost all of the decrease in the comparison of third quarter year-to-date 2007 and 2006 stock-based compensation costs, partially offset by higher stock option and employee stock purchase plan costs.

U.S. pension plan expenses in 2007 were $0.4 million and $1.9 million lower than the corresponding third quarter and nine month periods of 2006. The decrease largely results from a 2006 amendment to our qualified defined benefit pension plan in the United States. Under the amended plan, benefits earned under the plan s pension formulas and accruals for both hourly and salaried participants were frozen as of December 31, 2006 and replaced with new cash-balance formulas resulting in a reduction of our projected benefit obligation.

OTHER EXPENSE

Other expense consists of gains and losses on the sale or disposal of equipment, foreign exchange transaction items, miscellaneous royalty and sundry transactions.

	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in millions)	**2007**	**2006**	**2007**	**2006**
Pharmaceutical Systems segment	$ 0.7	$ 2.0	$ 1.1	$ 3.9
Tech Group segment	0.3			0.3
Brazil tax contingencies	8.6		8.6	
Total other expense	$ 9.6	$ 2.0	$ 9.7	$ 4.2

In the third quarter of 2007, we increased our accrual for a series of social security, excise and other tax contingencies in Brazil by $8.6 million. The increased provision followed a detailed review of several tax cases pending in the Brazilian courts which now indicate that it is probable that the positions taken on previous tax returns, some of which date back to the late 1990 s, will not be sustained. We had previously accrued $9.1 million over the course of the years in question, based on our best estimate of the contingent tax liabilities at that time. Based on current estimates including possible penalties and interest through September 30, 2007, we have increased our accrued liabilities for these contingencies to $17.7 million, resulting in an $8.6 million charge to our third quarter 2007 results. We intend to remit judicial deposits in support of these estimated tax liabilities to the Brazilian government in the fourth quarter of 2007 in order to discontinue further interest and penalty assessments while we proceed with the related court proceedings and the determination of final settlement amounts.

The decrease in other expense in both the quarter and nine month period comparisons in the Pharmaceutical Systems segment is mostly attributed to asset impairment charges recorded during 2006 related to assets connected with a discontinued product line and a software product. Year-to-date 2007 results for the Tech Group segment include a $0.4 million gain on the sale of an investment in a tool shop in Ireland.

OPERATING PROFIT (LOSS)

Operating profit (loss) by reportable segment, corporate and other unallocated costs was as follows:

Operating profit:	Three Months Ended September 30,		Nine Months Ended September 30,	
($ in millions)	**2007**	**2006**	**2007**	**2006**
Pharmaceutical Systems	$ 25.9	$ 26.6	$	