

WEST PHARMACEUTICAL SERVICES INC  
Form 10-Q  
August 05, 2013

UNITED STATES  
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 June 30, 2013

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)

530 Herman O. West Drive, Exton, 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 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  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.

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 July 31, 2013, there were 34,892,542 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		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Net sales	\$344.5	\$324.8	\$683.9	\$641.1
Cost of goods and services sold	233.6	226.1	461.3	441.3
Gross profit	110.9	98.7	222.6	199.8
Research and development	9.5	8.2	18.6	16.5
Selling, general and administrative expenses	59.7	54.4	118.7	105.7
Restructuring and other items (Note 2)	(0.8	) 0.5	(0.6	) 0.3
Operating profit	42.5	35.6	85.9	77.3
Loss on debt extinguishment	—	11.6	0.2	11.6
Interest expense	4.1	4.6	8.7	8.8
Interest income	0.4	0.6	1.0	1.0
Income before income taxes	38.8	20.0	78.0	57.9
Income tax expense	10.3	6.5	18.9	16.4
Equity in net income of affiliated companies	1.7	2.1	2.8	3.3
Net income	\$30.2	\$15.6	\$61.9	\$44.8
Net income per share:				
Basic	\$0.87	\$0.46	\$1.79	\$1.32
Diluted	\$0.86	\$0.45	\$1.76	\$1.27
Weighted average shares outstanding:				
Basic	34.7	34.0	34.6	33.9
Diluted	35.4	36.6	35.3	36.9
Dividends declared per share	\$0.19	\$0.18	\$0.38	\$0.36

See accompanying notes to condensed consolidated financial statements.

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## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

West Pharmaceutical Services, Inc. and Subsidiaries

(In millions)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net income	\$30.2	\$15.6	\$61.9	\$44.8
Other comprehensive (loss) income, net of tax:				
Foreign currency translation adjustments	(0.8	) (29.4	) (19.1	) (17.2
Defined benefit pension and other postretirement plan adjustments, net of tax of \$0.7, \$0.8, \$1.8 and \$1.4, respectively	1.1	1.5	3.2	2.3
Net gains (losses) on derivatives, net of tax of \$0.5, \$(1.5), \$0.1 and \$(1.5), respectively	0.7	(2.4	) 0.4	(2.4
Other comprehensive income (loss), net of tax	1.0	(30.3	) (15.5	) (17.3
Comprehensive income (loss)	\$31.2	\$(14.7	) \$46.4	\$27.5

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, 2013	December 31, 2012
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$190.6	\$161.9
Short-term investments	7.5	12.4
Accounts receivable, net	195.3	175.0
Inventories	176.5	162.2
Deferred income taxes	9.6	7.7
Other current assets	33.8	38.1
Total current assets	613.3	557.3
Property, plant and equipment	1,289.1	1,274.8
Less accumulated depreciation and amortization	625.7	605.8
Property, plant and equipment, net	663.4	669.0
Investments in affiliated companies	58.0	59.8
Goodwill	111.7	112.5
Deferred income taxes	92.0	90.3
Intangible assets, net	49.1	50.6
Other noncurrent assets	25.2	24.5
Total Assets	\$1,612.7	\$1,564.0
<b>LIABILITIES AND EQUITY</b>		
Current liabilities:		
Notes payable and other current debt	\$0.1	\$32.7
Accounts payable	88.4	102.9
Pension and other postretirement benefits	2.9	2.8
Accrued salaries, wages and benefits	50.0	56.5
Income taxes payable	24.2	15.6
Taxes other than income	8.0	7.8
Other current liabilities	45.1	43.5
Total current liabilities	218.7	261.8
Long-term debt	394.7	378.8
Deferred income taxes	19.3	20.8
Pension and other postretirement benefits	138.0	135.4
Other long-term liabilities	57.8	38.3
Total Liabilities	828.5	835.1
Commitments and contingencies (Note 13)		
Total Equity	784.2	728.9
Total Liabilities and Equity	\$1,612.7	\$1,564.0

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	Treasury Stock	Retained earnings	Accumulated other comprehensive loss	Total
Balance, December 31, 2012	34.4	\$8.6	\$79.3	\$(3.0 )	\$719.9	\$(75.9 )	\$728.9
Net income					61.9		61.9
Stock-based compensation			6.0				6.0
Shares issued under stock plans	0.5	0.1	14.1	(0.7 )			13.5
Shares repurchased for employee tax withholdings	(0.1 )		(5.2 )				(5.2 )
Excess tax benefit from employee stock plans			1.1				1.1
Dividends declared					(6.5 )		(6.5 )
Other comprehensive loss, net of tax						(15.5 )	(15.5 )
Balance, June 30, 2013	34.8	\$8.7	\$95.3	\$(3.7 )	\$775.3	\$(91.4 )	\$784.2

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,	
	2013	2012
Cash flows from operating activities:		
Net income	\$61.9	\$44.8
Depreciation	39.1	35.2
Amortization	2.1	2.2
Loss on debt extinguishment	0.2	11.6
Asset impairment charges	—	3.8
Other non-cash items, net	7.7	4.7
Changes in assets and liabilities	(12.6	) (36.3
Net cash provided by operating activities	98.4	66.0
Cash flows from investing activities:		
Capital expenditures	(83.8	) (69.4
Purchases of short-term investments	(8.8	) (26.0
Sales and maturities of short-term investments	13.7	27.3
Other, net	(3.0	) 0.3
Net cash used in investing activities	(81.9	) (67.8
Cash flows from financing activities:		
Borrowings under revolving credit agreements, net	6.7	198.6
Repayments of long-term debt	(29.3	) (165.7
Issuance of long-term debt	43.3	—
Debt issuance costs	—	(6.2
Dividend payments	(13.1	) (12.2
Excess tax benefit from employee stock plans	1.1	2.1
Shares repurchased for employee tax withholdings	(5.2	) (2.2
Proceeds from stock option exercises	10.7	2.9
Employee stock purchase plan contributions	1.1	1.1
Net cash provided by financing activities	15.3	18.4
Effect of exchange rates on cash	(3.1	) (1.4
Net increase in cash and cash equivalents	28.7	15.2
Cash, including cash equivalents at beginning of period	161.9	91.8
Cash, including cash equivalents at end of period	\$190.6	\$107.0

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, 2013 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, 2012 ("2012 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:

(\$ in millions)	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Restructuring and related charges (reversals):				
Severance and post-employment benefits	\$—	\$(0.2)	\$—	\$(0.2)
Impairments and asset write-offs	—	0.3	—	0.4
Other restructuring charges	—	0.2	—	0.5
Total restructuring and related charges	—	0.3	—	0.7
Impairment charge	—	3.4	—	3.4
Development income	(0.5)	(3.8)	(0.8)	(3.8)
Acquisition-related contingencies	0.2	0.2	0.2	0.4
Foreign exchange and other	(0.5)	0.4	—	(0.4)
Total restructuring and other items	\$(0.8)	\$0.5	\$(0.6)	\$0.3

## Restructuring and Related Charges

Total restructuring and related charges incurred during the three and six months ended June 30, 2012 were associated with the restructuring plan announced in December 2010 (the "2010 plan"). These charges consisted of costs associated with the 2011 closure of a plant in the United States, the reduction of operations at a manufacturing facility in England and the elimination of certain operational and administrative functions at other locations. We do not expect to incur any future charges related to this plan.



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The following table presents activity related to our restructuring obligations:

(\$ in millions)	Severance and benefits	
Balance, December 31, 2012	\$2.8	
Cash payments	(2.6	)
Balance, June 30, 2013	\$0.2	

We expect all payments to be completed by the end of 2013.

## Other Items

During the three and six months ended June 30, 2013, we recorded development income of \$0.5 million and \$0.8 million, respectively, within the Pharmaceutical Delivery Systems segment ("Delivery Systems"). Included in these amounts was \$0.3 million of income related to a nonrefundable payment of \$20.0 million received from a customer in June 2013 in return for the exclusive use of SmartDose™ within a specific therapeutic area. Unearned income related to this payment of \$1.5 million and \$18.2 million was included within other current liabilities and other long-term liabilities, respectively, at June 30, 2013. The unearned income is being recognized as development income on a straight-line basis over the remaining term of the agreement, which is thirteen years. The agreement does not include a future minimum purchase commitment from the customer.

During the three and six months ended June 30, 2012, we recorded development income of \$3.8 million attributable to services and the reimbursement of certain costs.

The liability for contingent consideration related to our 2010 acquisition of technology used in SmartDose ("SmartDose contingent consideration") increased by \$0.2 million during the three and six months ended June 30, 2013 due to fair value adjustments. During the three and six months ended June 30, 2012, the fair value of the SmartDose contingent consideration increased by \$0.2 million and \$0.4 million, respectively.

In addition, 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 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.

## 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, 2013, our effective tax rate was 26.5% and 24.2% respectively, compared with 32.7% and 28.4% for the same periods in 2012.

The decrease in the effective tax rate for the three month periods presented reflects the nondeductibility of the purchase premium paid related to the extinguishment of our convertible debt during the second quarter of 2012.

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The decrease in the effective tax rate for the six month periods presented reflects the item mentioned above, as well as a \$1.3 million discrete tax benefit related to the American Taxpayers Relief Act of 2012, which was signed into law in January 2013 and includes a retroactive reinstatement of the research and development tax credit to January 1, 2012. In addition, during the six months ended June 30, 2012, we recorded a \$0.3 million reduction of our deferred tax assets associated with the legal restructuring of the ownership of our Puerto Rico operations.

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 2012, the statute of limitations for the 2008 U.S. federal tax year lapsed, leaving tax years 2009 through 2012 open to examination. For U.S. state and local jurisdictions, tax years 2007 through 2012 are open to examination. We are also subject to examination in various foreign jurisdictions for tax years 2006 through 2012.

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 \$2.0 million during the next twelve months, which would favorably impact our effective tax rate. Accrued interest and penalties related to unrecognized tax benefits was \$0.6 million and \$0.5 million at June 30, 2013 and December 31, 2012, 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

In February 2013, we borrowed \$42.8 million pursuant to a five-year term loan with a variable interest rate, related to the purchase of our new corporate office and research building. In anticipation of this debt, we entered into a forward-start interest rate swap for the same notional amount to hedge the variability in cash flows due to changes in the applicable interest rate over the stated period. Under this swap, we 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 this swap as a cash flow hedge.

We also have an interest rate swap agreement outstanding as of June 30, 2013, that is designated as a cash flow hedge to protect against volatility in the interest rate payable on \$25.0 million of floating rate notes maturing on July 28, 2015 ("Series B Notes"). Under this swap, 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 agreement effectively fixes the interest rate payable on the Series B Notes at 5.51%.

#### Foreign Exchange Rate Risk

During 2012, we entered into several foreign currency hedge contracts that were designated as cash flow hedges of forecasted transactions denominated in foreign currencies, which are described in more detail below.

We entered into a series of foreign currency contracts intended to hedge the currency risk associated with a portion of our forecasted Japanese Yen ("Yen") denominated purchases of inventory from Daikyo Seiko Ltd. ("Daikyo") made by

West in the United States. As of June 30, 2013, there were six monthly contracts outstanding at ¥200.8 million (\$2.5 million) each, for an aggregate notional amount of ¥1.2 billion (\$15.0 million).

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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, 2013, there were six monthly contracts outstanding at an average monthly amount of \$1.1 million, for an aggregate notional amount of \$6.8 million.

In addition we entered into a series of foreign currency contracts to hedge the currency risk associated with a portion of our forecasted Yen-denominated inventory purchases made by certain European subsidiaries. As of June 30, 2013, there were six monthly contracts outstanding at an average monthly amount of ¥46.2 million (approximately \$0.5 million), for an aggregate notional amount of ¥185.0 million (\$1.9 million).

Lastly, we entered into a series of foreign currency contracts to hedge the currency risk associated with a portion of our forecasted Euro-denominated sales of finished goods by one of our USD functional-currency subsidiaries. As of June 30, 2013, there were six monthly contracts outstanding at \$1.4 million each, for an aggregate notional amount of \$8.4 million.

A portion of our debt consists of borrowings denominated in currencies other than the U.S. dollar. We designated our €82.1 million Euro-denominated debt as a hedge of our net investment in certain European subsidiaries. A cumulative foreign currency translation gain of \$0.3 million pre-tax (\$0.2 million after tax) on this debt was recorded within accumulated other comprehensive loss as of June 30, 2013. 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, 2013, there was a cumulative foreign currency translation gain on this Yen-denominated debt of \$0.3 million pre-tax (\$0.2 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 February 2013, we purchased a series of call options for a total of 58,000 barrels of crude oil 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 December 2013. 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 months ended June 30, 2013, we recorded a \$0.1 million loss in cost of goods and services sold related to these outstanding call options. During the three and six months ended June 30, 2012, a loss of \$0.1 million was recorded in cost of goods and services sold relating to 2012 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, 2013 and December 31, 2012.

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The following tables summarize the effects of derivative instruments designated as hedges on other comprehensive income (“OCI”) and earnings, net of tax:

(\$ in millions)	Amount of Gain (Loss) Recognized in OCI for		Amount of Loss Reclassified from Accumulated OCI into Income for		Location of Loss Reclassified from Accumulated OCI into Income
	Three Months Ended		Three Months Ended		
	June 30, 2013	2012	June 30, 2013	2012	
<b>Cash Flow Hedges:</b>					
Foreign currency hedge contracts	\$(0.1	) \$—	\$—	\$—	Net sales
Foreign currency hedge contracts	(1.0	) 0.6	0.9	—	Cost of goods and services sold
Interest rate swap contracts	0.4	(1.0	) 0.4	0.8	Interest expense
Forward treasury locks	—	(2.8	) 0.1	—	Interest expense
<b>Total</b>	<b>\$(0.7</b>	<b>) \$(3.2</b>	<b>) \$1.4</b>	<b>\$0.8</b>	
<b>Net Investment Hedges:</b>					
Foreign currency-denominated debt	\$(1.0	) \$4.1	\$—	\$—	Foreign exchange and other
<b>Total</b>	<b>\$(1.0</b>	<b>) \$4.1</b>	<b>\$—</b>	<b>\$—</b>	

(\$ in millions)	Amount of Gain (Loss) Recognized in OCI for		Amount of Loss Reclassified from Accumulated OCI into Income for		Location of Loss Reclassified from Accumulated OCI into Income
	Six Months Ended		Six Months Ended		
	June 30, 2013	2012	June 30, 2013	2012	
<b>Cash Flow Hedges:</b>					
Foreign currency hedge contracts	\$0.2	\$—	\$—	\$—	Net sales
Foreign currency hedge contracts	(2.7	) 0.3	1.5	—	Cost of goods and services sold
Interest rate swap contracts	0.5	(1.4	) 0.8	1.5	Interest expense
Forward treasury locks	—	(2.8	) 0.1	—	Interest expense
<b>Total</b>	<b>\$(2.0</b>	<b>) \$(3.9</b>	<b>) \$2.4</b>	<b>\$1.5</b>	
<b>Net Investment Hedges:</b>					
Foreign currency-denominated debt	\$1.4	\$2.4	\$—	\$—	Foreign exchange and other
<b>Total</b>	<b>\$1.4</b>	<b>\$2.4</b>	<b>\$—</b>	<b>\$—</b>	

For the three and six month periods ended June 30, 2013 and 2012, there was no material ineffectiveness related to our cash flow and net investment hedges.



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## 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.

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, 2013	Basis of Fair Value Measurements		
		Level 1	Level 2	Level 3
Assets:				
Short-term investments	\$7.5	\$7.5	\$—	\$—
Deferred compensation assets	4.8	4.8	—	—
	\$12.3	\$12.3	\$—	\$—
Liabilities:				
Contingent consideration	\$3.5	\$—	\$—	\$3.5
Deferred compensation liabilities	9.8	9.8	—	—
Interest rate swap contracts	6.6	—	6.6	—
Foreign currency contracts	3.2	—	3.2	—
Long-term debt	400.1	—	400.1	—
	\$423.2	\$9.8	\$409.9	\$3.5

(\$ in millions)	Balance at December 31, 2012	Basis of Fair Value Measurements		
		Level 1	Level 2	Level 3
Assets:				
Short-term investments	\$12.4	\$12.4	\$—	\$—
Deferred compensation assets	4.0	4.0	—	—
	\$16.4	\$16.4	\$—	\$—
Liabilities:				
Contingent consideration	\$3.3	\$—	\$—	\$3.3
Deferred compensation liabilities	7.6	7.6	—	—
Interest rate swap contracts	8.6	—	8.6	—
Foreign currency contracts	1.4	—	1.4	—
Long-term debt	386.0	—	386.0	—
	\$406.9	\$7.6	\$396.0	\$3.3

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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 noncurrent assets and are also valued using a market approach based on quoted market prices in an active market. The fair value of our foreign currency contracts, included within other current liabilities, is valued using an income approach based on quoted forward foreign exchange rates and spot rates at the reporting date. 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. Interest rate swaps, included within other long-term liabilities, 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.

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 \$394.7 million and \$378.8 million at June 30, 2013 and December 31, 2012, 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 and the discount rate. 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 the discount rate used. This could result in a material increase or decrease to the contingent consideration liability.

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

	Six Months Ended	
	June 30,	
	2013	2012
Beginning Balance	\$3.3	\$2.1
Increase in fair value recorded in earnings	0.2	0.4
Ending Balance	\$3.5	\$2.5

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

## 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.

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## 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, 2013	December 31, 2012
Finished goods	\$75.5	\$70.9
Work in process	28.8	23.6
Raw materials	72.2	67.7
	\$176.5	\$162.2

## Note 7: Debt

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

(\$ in millions)	June 30, 2013	December 31, 2012
Euro note A, due 2013	\$—	\$26.9
Term loan, due 2014	0.2	0.2
Series B floating rate notes, due 2015	25.0	25.0
Euro note B, due 2016	79.6	80.8
Capital leases, due through 2016	0.5	0.7
Revolving credit facility, due 2017	77.5	71.5
Term loan, due 2018	42.2	35.3
Note payable, due 2019	0.4	—
Series A notes, due 2022	42.0	42.0
Series B notes, due 2024	53.0	53.0
Series C notes, due 2027	73.0	73.0
Convertible debt, due 2047	1.4	3.1
	394.8	411.5
Less: current portion of long-term debt	0.1	32.7
	\$394.7	\$378.8

Please refer to Note 11, Debt, to the consolidated financial statements in our 2012 Annual Report for additional details regarding our debt agreements.

During the first quarter of 2013, we used a portion of our multi-currency revolving credit facility to repay our Euro note A that matured on February 27, 2013. At June 30, 2013, we had \$77.5 million in outstanding borrowings under this facility, of which \$5.1 million was denominated in Yen, \$27.4 million in Euros and the remainder in USD. The entire amount outstanding was classified as long-term based upon our intent and ability to continue the loans beyond one year. Of the total amount outstanding as of December 31, 2012, \$5.7 million was classified as short-term and \$65.8 million was classified as long-term.

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In February 2013, upon settlement of our new corporate office and research building, we borrowed \$42.8 million under a \$50.0 million revolving credit facility, which was immediately converted to a five-year term loan due January 2018. A portion of the loan was used to pay the \$35.3 million in outstanding obligations at December 31, 2012 related to the construction and acquisition of this new building. Borrowings under the loan bear interest at a variable rate equal to one-month LIBOR plus a margin of 1.50% percentage points. Please refer to Note 4, Derivative Financial Instruments, for a discussion of the interest-rate swap agreement associated with this loan.

In addition, during the first half of 2013, we repurchased \$1.7 million in aggregate principal amount of our 4.00% Convertible Junior Subordinated Debentures due 2047 (the “Convertible Debentures”). As a result, we recognized a pre-tax loss on debt extinguishment of \$0.2 million during the six months ended June 30, 2013, the majority of which represented the premium paid over par value. Following the repurchase, approximately \$1.4 million principal amount of Convertible Debentures remained outstanding.

## 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:

(\$ in millions)	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Net income, as reported, for basic net income per share	\$30.2	\$15.6	\$61.9	\$44.8
Plus: interest expense on convertible debt, net of tax	—	0.8	—	1.9
Net income for diluted net income per share	\$30.2	\$16.4	\$61.9	\$46.7
Weighted average common shares outstanding	34.7	34.0	34.6	33.9
Assumed stock options exercised and awards vested, based on the treasury stock method	0.7	0.5	0.6	0.5
Assumed conversion of convertible debt, based on the if-converted method	—	2.1	0.1	2.5
Weighted average shares assuming dilution	35.4	36.6	35.3	36.9

Options to purchase 0.5 million and 0.6 million shares of our common stock for the three months ended June 30, 2013 and 2012, respectively, were not included in the computation of diluted net income per share because their impact was antidilutive. There were 0.3 million and 1.7 million antidilutive options outstanding during the six month periods ended June 30, 2013 and 2012, respectively.

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## Note 9: Accumulated Other Comprehensive Loss

The following table presents the changes in the components of accumulated other comprehensive loss, net of tax, for the six months ended June 30, 2013:

(\$ in millions)	Losses on cash flow hedges	Unrealized gains on investment securities	Defined benefit pension and other postretirement plans	Foreign currency translation	Total
Balance, December 31, 2012	\$(9.0)	)\$0.8	\$(84.9)	)\$17.2	\$(75.9 )
Other comprehensive (loss) income before reclassifications	(2.0)	)—	0.6	(19.1)	)(20.5 )
Amounts reclassified out	2.4	—	2.6	—	5.0
Other comprehensive income (loss), net of tax	0.4	—	3.2	(19.1)	)(15.5 )
Balance, June 30, 2013	\$(8.6)	)\$0.8	\$(81.7)	)\$(1.9)	)(91.4 )

A summary of the reclassifications out of accumulated other comprehensive loss is presented in the following table (\$ in millions):

Detail of components	Three Months Ended June 30, 2013	Six Months Ended June 30, 2013	Location on Statement of Income
Losses on cash flow hedges:			
Foreign currency contracts	\$(1.4)	)\$(2.4)	)Cost of goods and services sold
Interest rate swap contracts	(0.7)	)(1.3)	)Interest expense
Forward treasury locks	(0.1)	)(0.2)	)Interest expense
Total before tax	(2.2)	)(3.9)	)
Tax expense	0.8	1.5	
Net of tax	\$(1.4)	)\$(2.4)	)
Amortization of defined benefit pension and other postretirement plans:			
Transition obligation	\$—	\$(0.1)	)(a)
Prior service cost	0.3	\$0.7	(a)
Actuarial losses	(2.3)	)(4.7)	)(a)
Total before tax	(2.0)	)(4.1)	)
Tax expense	0.7	1.5	
Net of tax	\$(1.3)	)\$(2.6)	)
Total reclassifications for the period, net of tax	\$(2.7)	)(5.0)	)

(a) These components are included in the computation of net periodic benefit cost. Refer to Note 11, Benefit Plans, for additional details.

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## Note 10: Stock-Based Compensation

At June 30, 2013, there were 2,935,331 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 half of 2013, we granted 461,174 stock options at a weighted average exercise price of \$59.43 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 \$11.46 per share as determined by the Black-Scholes option valuation model using the following weighted average assumptions: a risk-free interest rate of 0.89%; expected life of 6 years based on prior experience; stock volatility of 22.5% based on historical data; and a dividend yield of 1.3%. Stock option expense is recognized over the vesting period, net of forfeitures.

In addition, during the first half of 2013, we granted 88,476 performance-vesting share (“PVS”) awards at a weighted grant-date fair value of \$59.42 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 \$5.0 million and \$10.4 million for the three and six months ended June 30, 2013, respectively. For the three and six months ended June 30, 2012, total stock-based compensation expense was \$4.3 million and \$7.5 million, respectively.

## Note 11: 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		
	2013	2012	2013	2012	2013	2012	
Service cost	\$2.5	\$2.3	\$0.3	\$0.4	\$2.8	\$2.7	
Interest cost	3.7	3.8	0.3	0.2	4.0	4.0	
Expected return on assets	(4.3	) (4.1	) —	—	(4.3	) (4.1	)
Amortization of prior service credit	(0.3	) (0.4	) —	—	(0.3	) (0.4	)
Recognized actuarial losses	2.3	2.2	—	—	2.3	2.2	
Net periodic benefit cost	\$3.9	\$3.8	\$0.6	\$0.6	\$4.5	\$4.4	

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	Pension benefits		Other retirement benefits		Total	
	2013	2012	2013	2012	2013	2012
U.S. plans	\$3.1	\$3.2	\$0.6	\$0.6	\$3.7	\$3.8
International plans	0.8	0.6	—	—	0.8	0.6
Net periodic benefit cost	\$3.9	\$3.8	\$0.6	\$0.6	\$4.5	\$4.4

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	
	2013	2012	2013	2012	2013	2012
Service cost	\$5.0	\$4.6	\$0.7	\$0.7	\$5.7	\$5.3
Interest cost	7.4	7.7	0.5	0.5	7.9	8.2
Expected return on assets	(8.6 )	(8.1 )	—	—	(8.6 )	(8.1 )
Amortization of transition obligation	0.1	—	—	—	0.1	—
Amortization of prior service credit	(0.7 )	(0.8 )	—	—	(0.7 )	(0.8 )
Recognized actuarial losses	4.7	4.3	—	—	4.7	4.3
Net periodic benefit cost	\$7.9	\$7.7	\$1.2	\$1.2	\$9.1	\$8.9

	Pension benefits		Other retirement benefits		Total	
	2013	2012	2013	2012	2013	2012
U.S. plans	\$6.3	\$6.4	\$1.2	\$1.2	\$7.5	\$7.6
International plans	1.6	1.3	—	—	1.6	1.3
Net periodic benefit cost	\$7.9	\$7.7	\$1.2	\$1.2	\$9.1	\$8.9

## Note 12: 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.

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 of targets, 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.

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

(\$ in millions)	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Net sales:				
Packaging Systems	\$251.5	\$235.8	\$503.0	\$471.5
Delivery Systems	93.3	89.2	181.5	169.9
Intersegment sales	(0.3	) (0.2	) (0.6	) (0.3
Total net sales	\$344.5	\$324.8	\$683.9	\$641.1
Operating profit:				
Packaging Systems	\$56.8	\$50.5	\$115.5	\$104.1
Delivery Systems	2.3	5.5	3.5	7.8
Corporate	(16.6	) (16.5	) (33.1	) (30.1
Other unallocated items	—	(3.9	) —	(4.5
Total operating profit	\$42.5	\$35.6	\$85.9	\$77.3
Loss on debt extinguishment	—	11.6	0.2	11.6
Interest expense	4.1	4.6	8.7	8.8
Interest income	0.4	0.6	1.0	1.0
Income before income taxes	\$38.8	\$20.0	\$78.0	\$57.9

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 first six months of 2013, in connection with the repurchase of our Convertible Debentures, we recognized a pre-tax loss on debt extinguishment of \$0.2 million. Refer to Note 7, Debt, for additional details. During the three and six months ended June 30, 2012, we recognized a pre-tax loss on debt extinguishment of \$11.6 million related to the repurchase of 98.06% of our Convertible Debentures.

#### Note 13: 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, financial condition, results of operations or liquidity.

There have been no significant changes to the commitments and contingencies included in our 2012 Annual Report.



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Note 14: New Accounting Standards

Recently Adopted Standards

In July 2013, the Financial Accounting Standards Board ("FASB") issued amended guidance to permit the Federal Funds Effective Swap Rate (or Overnight Index Swap Rate) to be used as a U.S. benchmark interest rate for hedge accounting purposes under the derivatives and hedging guidance. The guidance also removes the restriction on using different benchmark rates for similar hedges. The amendments were effective for us immediately upon issuance and will be applied prospectively to qualifying new or re-designated hedging relationships entered into on or after July 17, 2013. This adoption did not have an impact on our financial statements.

In February 2013, the FASB issued guidance for the reporting of amounts reclassified out of accumulated other comprehensive income ("AOCI"). The guidance does not change the current requirements for reporting net income or other comprehensive income in financial statements; however, it requires an entity to provide information about the amounts reclassified out of AOCI by component. In addition, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of AOCI by the respective line items of net income, but only if the amount reclassified is required under U.S. GAAP to be reclassified to net income in its entirety in the same reporting period. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income, an entity is required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail about those amounts. We adopted this guidance as of January 1, 2013, on a prospective basis. This adoption did not have a material impact on our financial statements. Please refer to Note 9, Accumulated Other Comprehensive Loss, for additional details.

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 was effective for us as of January 1, 2013 and will be considered when performing our annual impairment testing. Management believes that the adoption of this guidance will not have a material impact on our financial statements.

Standards Issued Not Yet Adopted

In July 2013, the FASB issued revised guidance to address the diversity in practice related to the financial statement presentation of unrecognized tax benefits when a net operating loss carryforward, a similar tax loss, or a tax credit carryforward exists. This guidance is effective prospectively for fiscal years, and interim periods within those years, beginning after December 15, 2013. Management believes that the adoption of this guidance will not have a material impact on our financial statements.

In March 2013, the FASB issued guidance that clarifies the application of U.S. GAAP to the release of cumulative translation adjustments related to changes of ownership in or within foreign entities, including step acquisitions. This guidance is effective for annual reporting periods beginning on or after December 15, 2013, and subsequent interim periods. Management believes that the adoption of this guidance will not have an impact on our financial statements.

Note 15: Subsequent Event

On August 1, 2013, we announced that our Board of Directors had approved a two-for-one stock split of our outstanding shares of common stock, to be effected in the form of a stock dividend, payable on September 26, 2013 to shareholders of record on September 12, 2013. Our share and per share data presented in the accompanying condensed

consolidated financial statements have not been adjusted for the stock split, but will be retrospectively adjusted during the third quarter of 2013.

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Pro forma per share data, giving retroactive effect to the stock split is as follows:

	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Net income per share, basic	\$0.435	\$0.230	\$0.895	\$0.660
Net income per share, diluted	0.430	0.225	0.880	0.635
Dividends declared per share	0.095	0.090	0.190	0.180

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

OVERVIEW

The following discussion is intended to further the reader's understanding of the consolidated financial condition and results of operations of our Company. It should be read in conjunction with Management's Discussion and Analysis of Financial Condition and Results of Operations and the consolidated financial statements and accompanying notes included in our 2012 Annual Report. These historical financial statements may not be indicative of our future performance. This Management's Discussion and Analysis of Financial Condition and Results of Operations contains a number of forward-looking statements, all of which are based on our current expectations and could be affected by the uncertainties and risks discussed in Part I, Item 1A of our 2012 Annual Report and in Part II, Item 1A of this Quarterly Report on Form 10-Q.

Throughout this section, references to "Notes" refer to the footnotes to our condensed consolidated financial statements (unaudited) in Part I, Item 1 of this Quarterly Report on Form 10-Q, unless otherwise indicated.

Our Operations

Our business operations are organized into two reportable segments, which are aligned with the underlying markets and customers they serve. Our reportable segments are 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. We also maintain global partnerships to share technologies and market products with affiliates in Japan and Mexico.

Second Quarter 2013 Financial Performance Highlights

Net sales were \$344.5 million, an increase of 6.1% from the same period in 2012 (5.7% excluding foreign currency effects).

Gross profit was \$110.9 million, an increase of 12.4% from the same period in 2012, and our gross margin increased by 1.8 margin points to 32.2%.

Operating profit was \$42.5 million, an increase of 19.4% from the same period in 2012.

Net income was \$30.2 million, an increase of 93.6% from the same period in 2012.

We achieved higher net sales in both the Packaging Systems and Delivery Systems segments during the three months ended June 30, 2013, as compared to the same period in 2012. Net sales originating in the United States were \$157.1 million, an increase of 2.9% from the same period in 2012, primarily due to higher domestic demand for pharmaceutical packaging components and an increase in Daikyo Crystal Zenith® ("CZ") sales, partially offset by a decrease in contract manufacturing sales. Net sales generated outside of the United States were \$187.4 million, an increase of 8.9% from the same period in 2012, reflecting continued growth and demand, particularly in Europe. Excluding the favorable effects from currency translation, our non-U.S. net sales increased 8.2% and our consolidated net sales increased 5.7% from the same period in 2012.



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Gross profit increased by \$12.2 million during the three months ended June 30, 2013, as compared to the same period in 2012, primarily due to higher sales volumes and improved production efficiencies. Sales price increases also increased gross profit; however, this favorable item was offset by the impact of increased wages, benefits and other costs.

Operating profit increased by \$6.9 million during the three months ended June 30, 2013, as compared to the same period in 2012, primarily due to the increase in consolidated gross profit described above and the change in restructuring and other items, partially offset by increases in R&D and SG&A costs.

Net income increased by \$14.6 million, and diluted net income per share increased by \$0.41 per diluted share, during the three months ended June 30, 2013, as compared to the same period in 2012. Net income and diluted net income per share for the three months ended June 30, 2012 included a loss on extinguishment of debt of \$9.8 million (net of \$1.8 million in tax), or \$.27 per diluted share, restructuring, impairment and related charges of \$2.3 million (net of \$1.4 million in tax), or \$0.06 per diluted share, and an increase in acquisition-related contingencies of \$0.2 million, or \$0.01 per diluted share.

## Business Outlook

We anticipate continued revenue improvement driven by customers moving up the product quality and value scale in Packaging Systems and increasing growth in Delivery Systems' proprietary products, as customers accelerate their pre-commercial efforts. In particular, we continue to focus on the expansion of our high-value closure products and proprietary delivery systems, including CZ-based containment systems. We continue to believe that actions taken in recent years to increase capacity for certain products, reduce costs through restructuring and lean savings efforts, and expand into emerging markets will lead to improved profitability as global demand increases. We plan to continue funding capital projects related to new products, expansion activity, and emerging markets for Packaging Systems and for new, proprietary products within Delivery Systems. We believe that our operating results and financial position give us a platform for sustained growth, and will enable us to take advantage of opportunities to invest in our business as they arise.

## RESULTS OF OPERATIONS

We evaluate the performance of our segments based upon, among other things, segment net sales and operating profit. 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 of targets, 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.

For the purpose of aiding the comparison of our year-over-year results, we often refer to net sales and other financial results excluding the effects of changes in foreign currency exchange rates. The constant-currency amounts are calculated by translating the current year's functional currency results at the prior-year period's exchange rate. These re-measured results excluding effects from currency translation are not in conformity with U.S. GAAP and should not be used as a substitute for the related U.S. GAAP financial measures. The non-U.S. GAAP financial measures are incorporated into our discussion and analysis as management uses them in evaluating our results of operations, and believes that this information provides users a valuable insight into our results.

Percentages in the following tables and throughout the Results of Operations section may reflect rounding adjustments.



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## Net Sales

The following table presents net sales, consolidated and by reportable segment:

(\$ in millions)	Three Months Ended		Six Months Ended	
	June 30,		June 30,	
	2013	2012	2013	2012
Packaging Systems	\$251.5	\$235.8	\$503.0	\$471.5
Delivery Systems	93.3	89.2	181.5	169.9
Intersegment sales elimination	(0.3	) (0.2	) (0.6	) (0.3
Consolidated net sales	\$344.5	\$324.8	\$683.9	\$641.1

Packaging Systems – Packaging Systems’ net sales increased by \$15.7 million, or 6.7%, for the three months ended June 30, 2013, as compared to the same period in 2012, including a favorable foreign exchange impact of \$0.9 million. Excluding foreign exchange effects, net sales for the three months ended June 30, 2013 increased by \$14.8 million, or 6.3%, as compared to the same period in 2012, primarily due to unit volume growth for our standard pharmaceutical components and continued growth in sales of our higher-quality product offerings that reduce particulate contamination and create efficiencies in our customer's manufacturing processes. Sales price increases contributed 2.1 percentage points of the increase.

Packaging Systems’ net sales increased by \$31.5 million, or 6.7%, for the six months ended June 30, 2013, as compared to the same period in 2012, including a favorable foreign exchange impact of \$1.2 million. Excluding foreign exchange effects, net sales for the six months ended June 30, 2013 increased by \$30.3 million, or 6.4%, as compared to the same period in 2012, primarily due to continued growth in sales of our higher-quality product offerings that reduce particulate contamination and create efficiencies in our customer's manufacturing processes and unit volume growth for our standard pharmaceutical components. Sales price increases contributed 2.2 percentage points of the increase.

Delivery Systems – Delivery Systems’ net sales increased by \$4.1 million, or 4.7%, for the three months ended June 30, 2013, as compared to the same period in 2012, including a favorable foreign exchange impact of \$0.3 million. Excluding foreign exchange effects, net sales for the three months ended June 30, 2013 increased by \$3.8 million, or 4.3%, as compared to the same period in 2012, primarily due to increases in CZ and administration systems sales, partially offset by a decrease in contract manufacturing sales. Proprietary net sales represented 25.6% of Delivery Systems' net sales for the three months ended June 30, 2013, as compared to 20.1% for the same period in 2012. Sales price increases contributed one percentage point of the increase.

Delivery Systems’ net sales increased by \$11.6 million, or 6.8%, for the six months ended June 30, 2013, as compared to the same period in 2012, including a favorable foreign exchange impact of \$0.4 million. Excluding foreign exchange effects, net sales for the six months ended June 30, 2013 increased by \$11.2 million, or 6.6%, as compared to the same period in 2012, primarily due to increases in CZ and administration systems sales. Proprietary net sales represented 25.4% of Delivery Systems' net sales for the six months ended June 30, 2013, as compared to 20.6% for the same period in 2012. Sales price increases contributed one percentage point of the increase.

Consolidated net sales increased by \$19.7 million, or 6.1%, for the three months ended June 30, 2013, as compared to the same period in 2012, including a favorable foreign exchange impact of \$1.2 million. Excluding foreign currency effects, net sales for the three months ended June 30, 2013 increased by \$18.5 million, or 5.7%, as compared to the same period in 2012.





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Consolidated net sales increased by \$42.8 million, or 6.7%, for the six months ended June 30, 2013, as compared to the same period in 2012, including a favorable foreign exchange impact of \$1.6 million. Excluding foreign currency effects, net sales for the six months ended June 30, 2013 increased by \$41.2 million, or 6.4%, as compared to the same period in 2012.

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

## Gross Profit

The following table presents gross profit and related gross margins, consolidated and by reportable segment:

(\$ in millions)	Three Months Ended		Six Months Ended		
	June 30, 2013	2012	June 30, 2013	2012	
Packaging Systems:					
Gross Profit	\$92.7	\$82.7	\$187.5	\$167.9	
Gross Margin	36.9	% 35.1	% 37.3	% 35.6	%
Delivery Systems:					
Gross Profit	\$18.2	\$16.0	\$35.1	\$31.9	
Gross Margin	19.5	% 17.9	% 19.3	% 18.8	%
Consolidated Gross Profit	\$110.9	\$98.7	\$222.6	\$199.8	
Consolidated Gross Margin	32.2	% 30.4	% 32.6	% 31.2	%

Packaging Systems – Packaging Systems' gross profit increased by \$10.0 million, or 12.1%, and \$19.6 million, or 11.7%, for the three and six months ended June 30, 2013, respectively, as compared to the same periods in 2012, including a favorable foreign exchange impact of \$0.4 million and \$0.6 million for the three and six months ended June 30, 2013, respectively. Packaging Systems' gross margin increased by 1.8 margin points and 1.7 margin points for the three and six months ended June 30, 2013, respectively, as compared to the same periods in 2012, primarily as a result of improved production efficiencies. Sales price increases also increased Packaging Systems' gross margin for the three and six months ended June 30, 2013, however, this favorable item was offset by the impact of increased wages, benefits and other costs.

Delivery Systems – Delivery Systems' gross profit increased by \$2.2 million, or 13.8%, and \$3.2 million, or 10.0%, for the three and six months ended June 30, 2013, respectively, as compared to the same periods in 2012. Delivery Systems' gross margin increased by 1.6 margin points and 0.5 margin points for the three and six months ended June 30, 2013, respectively, as compared to the same periods in 2012, primarily due to improved production efficiencies. Sales price increases also increased Delivery Systems' gross margin for the three and six months ended June 30, 2013, however, this favorable item was offset by the impact of increased wages, benefits and other costs.

Consolidated gross profit increased by \$12.2 million, or 12.4%, and \$22.8 million, or 11.4%, for the three and six months ended June 30, 2013, respectively, as compared to the same periods in 2012, including a favorable foreign exchange impact of \$0.4 million and \$0.6 million for the three and six months ended June 30, 2013, respectively. Consolidated gross margin increased by 1.8 margin points and 1.4 margin points for the three and six months ended June 30, 2013, respectively, as compared to the same periods in 2012.



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Research and Development (“R&D”) Costs

(\$ in millions)	Three Months Ended		Six Months Ended	
	June 30, 2013	2012	June 30, 2013	2012
Packaging Systems	\$3.6			