WEST PHARMACEUTICAL SERVICES INC
Form 10-K
March 01, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the Fiscal Year Ended December 31, 2006

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	**19341-0645**
(Address of principal executive offices)	(Zip Code)

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

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common Stock, par value $.25 per share	New York Stock Exchange

Securities registered pursuant to Section 12 (g) of the Act:

None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes x No o

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes o No x

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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant s knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. 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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of June 30, 2006 was approximately $1,175,809,948 based on the closing price as reported on the New York Stock Exchange.

As of January 31, 2007, there were 33,042,322 shares of the Registrant s common stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Document	Parts Into Which Incorporated
Proxy Statement for the Annual Meeting of Shareholders to be held May 1, 2007	Part III

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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 2006 Form 10-K contains some forward-looking statements that set forth anticipated results based on management s plans and assumptions. Such statements give our current expectations or forecasts of future events they do not relate strictly to historical or current facts. In particular, these include statements concerning future actions, future performance or results of current and anticipated products, sales efforts, expenses, the outcome of contingencies such as legal proceedings and financial results. We have tried, wherever possible, to identify such statements by using words such as estimate, expect, intend, believe, plan, anticipate, project and ot and terms of similar meaning in connection with any discussion of future operating or financial performance or condition.

We cannot guarantee that any forward-looking statement will be realized. If known or unknown risks or uncertainties materialize, or if underlying assumptions are inaccurate, actual results could differ materially from past results and those expressed or implied in any forward-looking statement. You should bear this in mind as you consider forward-looking statements. We cannot predict or identify all such risks and uncertainties, but factors that could cause the actual results to differ materially from expected and historical results include the following: sales demand; the timing, regulatory approval and commercial success of customers products incorporating our products and services, including specifically, the Exubera® Inhalation-Powder insulin device; customers changes to inventory requirements and manufacturing plans that alter existing orders or ordering patterns for our products; our ability to pass raw-material cost increases on to customers through price increases; maintaining or improving production efficiencies and overhead absorption; physical limits on manufacturing capacity that may limit our ability to satisfy anticipated demand; the availability of labor to meet increased demand; competition from other providers; average profitability, or mix, of products sold in a reporting period; financial performance of unconsolidated affiliates; strength of the U.S. dollar in relation to other currencies, particularly the Euro, UK Pound, Danish Krone, Japanese Yen and Singapore Dollar; higher interest rates; 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, including products produced in northern Israel; raw-material price escalation, particularly petroleum-based raw materials, and energy costs; availability, and pricing of materials that may be affected by vendor concerns with exposure to product-related liability; and, changes in tax law or loss of beneficial tax incentives.

We also refer you to the risks associated with our business that are contained in Item 1A, *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

ITEM 1. DESCRIPTION OF BUSINESS.

General

West Pharmaceutical Services, Inc. (which may be referred to as *West*, the *Company*, *we*, *us* or *our*) is a manufacturer of components and systems for injectable drug delivery and plastic packaging and delivery system components for the healthcare, personal care and consumer products markets. Our products include stoppers and seals for vials, and components used in syringes, intravenous delivery systems and blood collection and diagnostic systems. Our customers include the world s leading pharmaceutical, biotechnology, generic drug and medical-device producers. The Company was incorporated under the laws of the Commonwealth of Pennsylvania on July 27, 1923.

Acquisitions and Dispositions

In recent years, we have gone through a series of acquisitions and dispositions designed to focus our business on our core competencies in pharmaceutical packaging, delivery components and devices and related services.

On December 24, 2004, we agreed to sell our drug delivery systems business. That business consisted of developing proprietary chemical-based delivery methods, which when combined with the active drug compound, would improve the drug s delivery profile.

On August 23, 2005, we sold our clinical services business unit. For financial reporting purposes, the operating results of the drug delivery business and clinical services unit have been classified as discontinued operations for all periods presented and are contained in Note 3 to our consolidated financial statements, *Discontinued Operations*.

On February 11, 2005, we acquired Monarch Analytical Laboratories, Inc. (Monarch), which provides analytical testing services for glass, plastics and elastomer packaging.

On May 20, 2005, we completed the acquisition of the business assets of the Tech Group, Inc. (TGI). TGI manufactures plastic components and assemblies for the pharmaceutical, medical device, consumer products and personal care markets.

On August 2, 2005, we acquired a 90% interest in Medimop Medical Projects, Ltd. and its U.S. affiliate (Medimop). Medimop develops disposable medical devices for the mixing, transfer, reconstitution and administration of injectable drugs.

For additional detail regarding our acquisitions, see Note 2 to our consolidated financial statements, *Acquisitions*.

West Website

West maintains a website at www.westpharma.com. Our Annual Report on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports filed or furnished pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934 are available on our website under the *Investor SEC Filings* caption as soon as reasonably practical after we electronically file the material with, or furnish it to, the Securities and Exchange Commission (SEC). These filings are also available to the public over the Internet at the SEC s website at www.sec.gov. You may also read and copy any document we file at the SEC s Public Reference Room at 100 F. Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the Public Reference Room.

Throughout this Form 10-K, we incorporate by reference certain information from parts of other documents filed with the SEC and from our Proxy Statement for the 2007 Annual Meeting of Shareholders (2007 Proxy Statement), which will be filed with the SEC within 120 days following the end of our 2006

fiscal year. Our 2007 Proxy Statement will be available on our website on or about March 31, 2007 under the caption *Investor SEC Filings*.

Information about our corporate governance, including our Corporate Governance Principles and Code of Business Conduct, as well as information about our Directors, Board Committees, Committee charters, and instructions on how to contact the Board, is available on our website under the *Investor Corporate Governance* caption. Information relating to the West Pharmaceutical Services Dividend Reinvestment Plan is also available on our website under the *Investors DRIP* caption. We will provide any of the foregoing information without charge upon written request to John R. Gailey III, Vice President, General Counsel and Secretary, West Pharmaceutical Services, Inc., 101 Gordon Drive, Lionville, Pennsylvania 19341.

Business Segments

We have two reportable segments: Pharmaceutical Systems and Tech Group. The Pharmaceutical Systems segment includes the results of the acquired Medimop and Monarch businesses. The Tech Group segment includes the results of the acquired businesses of TGI.

Comparative segment revenues and related financial information for 2006, 2005 and 2004 are presented in a table contained in Note 7 to our consolidated financial statements, *Segment Information*, and the section headed *Results of Operations* in the *Management s Discussion and Analysis of Financial Condition and Results of Operations* section of this 2006 Form 10-K.

Pharmaceutical Systems Segment

Our Pharmaceutical Systems segment designs, manufactures and sells a variety of elastomer and metal components used in parenteral drug delivery for the branded pharmaceutical, generic and biopharmaceutical industries and is one of the world s largest, independent manufacturers of pharmaceutical packaging components (stoppers, plungers and seals). The primary components we manufacture are subject to regulatory oversight within our customers manufacturing facilities. We have manufacturing facilities in North and South America, Europe and Asia Pacific, with affiliated companies in Mexico and Japan. See Item 2, *Properties*, for additional information on our manufacturing sites.

Our Pharmaceutical Systems segment consists of two operating segments the Americas and Europe/Asia Pacific which are aggregated for reporting purposes because they have similar economic characteristics, as well as similar products, manufacturing processes, customer objectives, distribution procedures and regulatory requirements.

Our Pharmaceutical Systems business is composed of the following product lines:

- Elastomeric stoppers and discs, which serve as primary closures for pharmaceutical vials.
- Secondary closures for pharmaceutical vials, called Flip-Off® aluminum seals, consisting of an aluminum seal and removable plastic button, and in some applications, just an aluminum seal.
- Elastomeric syringe plungers, stoppers for blood collection systems and flashback bulbs and sleeve stoppers for intravenous dispensing systems.
- Elastomer and co-molded elastomer/plastic components for infusion (IV) sets.
- Dropper bulbs including tamper-evident droppers for applications such as eye, ear and nasal drops, diagnostic products and dispensing systems.
- Needle shields and tip caps to fit most standard prefilled syringes and combination seals for dental cartridges and pens.
- Baby bottle nipple and pacifier bulbs from a variety of elastomeric formulations.

Our elastomeric components are offered in a variety of standard and customer-specific configurations and formulations. These components are available with advanced barrier films and coatings to enhance their performance. *FluroTec® is* a flurorcarbon film which is applied to rubber stoppers and plungers using a patented molding process. This film helps to prevent the migration of rubber constituents into the drug formulation and the absorption of drug constituents into the rubber stopper and results in enhanced shelf life of packaged drugs. *Teflon®* is a flourinated ethylene-propylene film applied to the surface of serum stoppers to improve compatibility between the closure and the drug. Teflon® is a registered trademark of E.I. DuPont de Nemours and Company. *B2*-Coating is a polydimethylsiloxane fluid coating applied to the surface of rubber stoppers and plungers using a patented process. B2-Coating eliminates the need for conventional siliconization to help manufacturers reduce vision system product rejections due to trace levels of silicone molecules found in packaged drug compounds. FluroTec and B2-Coating technologies are licensed from Daikyo Seiko, Ltd.

In addition to the coating technologies, we offer a post-manufacturing process called Westar® RS (ready to sterilize), a documented and fully validated procedure for washing and siliconizing stoppers and syringe components to remove biological materials and endotoxins prior to sterilization. The Westar® process increases the overall efficiency of injectable drug production by centralizing processing and eliminating steps otherwise required in each of our customers manufacturing processes.

Our Flip-Off® secondary closures are tamper-evident sterilizable seals, consisting of a metal overseal and a molded plastic cap that is removed in order to permit access to the drug-vial contents. These are sold in a wide range of sizes and color combinations to meet customers needs for product identification and differentiation. In 2004, we introduced seals with a smooth-top surface for printing or embossing cautionary statements, usage or dosage instructions, or manufacturer or product names. In 2005, we introduced anti-counterfeiting technologies that include the use of spectroscopic inks for covert product protection allowing customers to incorporate price codes or product lot numbers visible only under ultra-violet lights.

The latest seal technology, known as West Spectra RFID, currently in development with two manufacturers, incorporates a radio-frequency identification chip within the molded cap. The chip can include product information and manufacturer information that is readable and easy to update, enabling product tracking throughout the entire supply chain.

Many injectable drug products, including the majority of recently introduced biotechnology products, are produced as freeze-dried powders in order to preserve product efficacy during shipment and storage. These products must be reconstituted, typically by diluting the powder with sterile water or other diluent at the point of use. Our acquisition of Medimop expanded our product offerings in this area. All Medimop products are 510K-approved by the United States Food and Drug Administration (FDA). In addition, many Medimop products are protected by patents.

As an adjunct to our Pharmaceutical Systems products, we offer contract analytical laboratory services for testing and evaluating primary drug packaging components and their compatibility with the contained drug formulation specializing in extractables and leachables testing. Monarch Laboratories specializes in plastic and glass materials testing. Prior to acquiring Monarch, our analytical laboratories focused primarily on elastomer materials. The two operations have been combined to form West Monarch Analytical Laboratories. The integrated laboratories provide us and our customers with in-depth knowledge and analysis of the interaction and compatibility of drug products with elastomer, glass and plastic packaging components. Our analytical laboratories also provide specialized testing for complete drug delivery systems.

Tech Group Segment

Our Tech Group segment serves the medical, pharmaceutical, diagnostic and healthcare markets with custom contract-manufacturing services. Products and projects include design and manufacturing of unique components for surgical, ophthalmic, diagnostic and drug delivery systems, such as contact lens storage kits, pill dispensers, safety needle syringes, disposable blood collection systems and components and systems associated with drug inhalation devices. This segment has manufacturing operations in the U.S., Mexico, Puerto Rico and Ireland. See Item 2, *Properties*, for additional information on our manufacturing sites.

The Tech Group segment also has expertise in product design, including in-house mold design and construction, a quick-response center for developmental and prototype tooling and high-speed automated assemblies. Technologies include multi-material molding, in-mold labeling, ultrasonic-welding and automated multi-component clean-room assembly.

In January 2006, the FDA and the European Medicines Agency granted marketing approval for Exubera® Inhalation Powder, a pulmonary insulin product, licensed by Pfizer, Inc. and developed by our customer, Nektar Therapeutics. We are one of two contract-manufacturers, and the only U.S.-based contract-manufacturer, for Nektar s inhalation delivery device. Although the product faces significant challenges in gaining acceptance among physicians and diabetic patients, current expectations for the product are positive. Pfizer currently markets the product in the United Kingdom, Ireland and Germany. In the U.S., Pfizer has initiated plans for an expanded roll-out of Exubera® to primary care physicians beginning in 2007.

In the consumer products and personal care markets, Tech Group products include the following:

- Child-resistant and tamper-evident closures and dispensers for personal care products.
- *Spout-Pak*® components used to seal beverage containers (Spout-Pak® is a registered trademark of International Paper).
- Multi-piece components for consumer technology products.
- Unique pens and marking systems.
- Small-scale fan/motor assemblies.
- Laundry and home-care system components.

International

We have significant operations outside the United States. They are managed through the same business segments as our U.S. operations Pharmaceutical Systems and Tech Group. Sales outside of the U.S. account for approximately 49% of consolidated net sales.

For a geographic breakdown of sales, see the table in Note 7 to the consolidated financial statements, *Segment Information*, and Note 13, *Affiliated Companies*.

Although the general business process is similar to the domestic business, international operations are exposed to additional risks inherent in carrying on business in other countries. These risks include currency fluctuations, multiple tax jurisdictions and particularly in Latin and South America and the Middle East political and social issues that could destabilize local markets and affect the demand for our products.

Depending on the direction of change relative to the U.S. dollar, foreign currency values can increase or decrease the reported dollar value of our net assets and results of operations. See the discussion under

the caption *Summary of Significant Accounting Policies - Foreign Currency Translation* in Note 1 to our consolidated financial statements. Also see Note 5, *Other Expense*.

We attempt to minimize some of our exposure to these exchange rate fluctuations through the use of forward exchange contracts and foreign currency denominated debt. This activity is generally discussed in Note 1 under the caption *Summary of Significant Accounting Policies Financial Instruments* and in Note 16, *Financial Instruments*, to our consolidated financial statements in this 2006 Form 10-K.

Raw Materials

We use three basic raw materials in the manufacture of our products: elastomers, aluminum and plastic. Elastomers include both natural and synthetic materials. We have access to adequate supplies of these raw materials to meet our production needs through agreements with suppliers, and therefore foresee no significant availability problems in the near future.

We utilize a supply-chain management strategy in our reporting segments, which involves purchasing from integrated suppliers that control their own sources of supply. This strategy has reduced the number of our raw material suppliers. In most cases, we purchase raw materials from a single source to assure quality and reduce costs. Due to regulatory control over our production processes, and the cost and time involved in qualifying suppliers, we rely on single-source suppliers for many critical raw materials. This strategy increases the risk that our supply lines may be interrupted in the event of a supplier production problem.

These risks are managed, where possible, by selecting suppliers with multiple manufacturing sites, rigid quality control systems, surplus inventory levels and other methods of maintaining supply in case of interruption in production.

Intellectual Property Rights

Patents and other proprietary rights are important to our business. We own or license numerous patents and have patent applications pending in the United States and in foreign countries that relate to various aspects of our products. In addition, key valued-added and proprietary products and processes are licensed from our Japanese affiliate, Daikyo Seiko Ltd. Our patents and other proprietary rights have been useful in establishing our market share and in the growth of our business, and are expected to continue to be of value in the future, as we continue to develop proprietary products. Although of importance in the aggregate, we do not consider our business to be materially dependent on any individual patent.

We also rely heavily on trade secrets, manufacturing know-how and continuing technological innovations, as well as in-licensing opportunities, to maintain and further develop our competitive position, particularly in the area of formulation development and tooling design.

If the use of our technologies conflicts with the intellectual property rights of third-parties, we may incur substantial liabilities and we may be unable to commercialize products based on these technologies in a profitable manner, if at all.

Seasonality

Although our Pharmaceutical Systems business is not inherently seasonal, sales and operating profit in the second half of the year are typically lower when compared to those of the first half of the year primarily due to scheduled plant shutdowns for maintenance procedures and vacations for production employees, and the year-end impact of holidays on production scheduling.

Working Capital

We are required to carry significant amounts of inventory to meet customer requirements. Other agreements also require us to purchase inventory in bulk orders, which increases inventory levels but

decreases the risk of supply interruption. Levels of inventory are also influenced by the seasonal patterns discussed above. For a more detailed discussion of working capital, please see the discussion in *Management s Discussion and Analysis of Financial Condition and Results of Operations* under the caption *Financial Condition, Liquidity and Capital Resource*s.

Marketing

Our Pharmaceutical Systems customers include practically every major branded pharmaceutical, generic and biopharmaceutical company in the world. Pharmaceutical systems components and other products are sold to major pharmaceutical, biotechnology and hospital supply/medical device companies, which incorporate them into their products for distribution to the ultimate end-user.

With extensive experience in contract-manufacturing, our Tech Group segment sells to many of the world s largest medical device and pharmaceutical companies and to large customers in the personal care and food-and-beverage industries. Tech Group components generally are incorporated into our customers manufacturing lines for further processing or assembly.

West s products and services are distributed primarily through our own sales force and distribution network, with limited use of contract sales agents and regional distributors.

Our ten largest customers accounted for approximately 36.4% of our consolidated net sales in 2006, but not one of these customers accounted for more than 10%. The three largest customers in the Tech Group segment accounted for approximately 24.3% of the 2006 net sales for that segment.

Order Backlog

At December 31, 2006, our order backlog was $250.1 million, of which $248.2 million is expected to be filled during fiscal year 2007. The order backlog was $182.5 million at the end of 2005. This increase was primarily due to strengthening demand for key products and blanket orders placed by certain customers for the full year. Order backlog includes firm orders placed by customers for manufacture over a period of time according to their schedule or upon confirmation by the customer. We also have contractual arrangements with a number of our customers, and products covered by these contracts are included in our backlog only as orders are received.

Competition

We compete with several companies across our major and minor Pharmaceutical Systems product lines. However, we believe that we supply a major portion of the U.S. market for pharmaceutical elastomer and metal packaging components and have a significant share of the European market for these components.

Because of the special nature of our pharmaceutical packaging components and our long-standing participation in the market, competition is based primarily on product design and performance although total cost is becoming increasingly important as pharmaceutical companies continue with aggressive cost-control programs across their entire operations. We differentiate ourselves from our competition as a full-service value-added global supplier that can provide pre-sale formula and engineering development, analytical services, regulatory expertise and post-manufacturing technologies, as well as after-sale technical support. Customers also appreciate the global scope of West s manufacturing capability and our ability to produce many products at multiple sites.

Our Tech Group business is in very competitive markets for both healthcare and consumer products. The competition varies from smaller regional companies to large global molders that command significant market shares. There are extreme cost pressures and many of our customers look off-shore to reduce cost. We differentiate ourselves by leveraging our global capability and by employing new technologies such as

high-speed automated assembly, insert molding, multi-shot molding and expertise with multiple-piece closure systems. Because of the more demanding regulatory requirements in the medical-device component area, there are a smaller number of other competitors, mostly large-scale companies. We compete for this market on the basis of our reputation for quality and reliability in engineering and project management, diverse contract-manufacturing capabilities and knowledge of and experience in complying with FDA requirements.

Research and Development Activities

We maintain our own research-scale production facilities and laboratories for development of new products and offer contract engineering design and development services to assist customers with new product development.

Our quality control, regulatory and laboratory testing capabilities also are used to ensure compliance with applicable manufacturing and regulatory standards for primary and secondary pharmaceutical packaging components. Our engineering departments are responsible for product and tooling design and testing, and for the design and construction of processing equipment. In addition we have created an innovation group responsible for seeking new opportunities in injectable packaging and delivery systems, for developing innovative new products to serve unmet market needs, and for the process of transitioning our Tech Group segment from primarily a contract manufacturer to a producer of high-value proprietary systems and products.

In 2006, we employed 69 professionals in these activities. We spent $8.8 million in 2006, $6.3 million in 2005 and $5.2 million in 2004 on development and engineering for the Pharmaceutical Systems segment. The Tech Group segment incurred research and development expenses of $2.3 million, $1.6 million, and $1.6 million in the years 2006, 2005 and 2004, respectively.

Commercial development of our new products and services for medical and pharmaceutical applications commonly requires several years. New products that we develop may require separate approval as medical devices, and products that are intended to be used in packaging and delivery of pharmaceutical products will be subject to both customer acceptance of our products and regulatory approval of the customer s products following our development period.

Employees

As of December 31, 2006, we employed approximately 6,323 people in our operations throughout the world.

ITEM 1A. RISK FACTORS.

Our sales and profitability depend to a large extent on the sale of drug products delivered by injection. If the products developed by our customers in the future use another delivery system, our sales and profitability could suffer.

Our business depends to a substantial extent on customers continued sales and development of products that are delivered by injection. We also rely on our customers who develop products that use other delivery means, including oral and trans-mucosal, specifically, the Exubera® Inhalation-Powder insulin device. However, if our customers fail to continue to sell, develop and deploy new injectable products or we are unable to develop new products that assist in the delivery of drugs by alternative methods, our sales and profitability may suffer.

If we are unable to provide comparative value advantages, timely fulfillment of customer orders, or resist pricing pressure, we will have to reduce our prices, which may negatively impact our profit margins.

We compete with several companies across our major product lines. Because of the special nature of these products, competition is based primarily on product design and performance, although total cost is becoming increasingly important as pharmaceutical companies continue with aggressive cost control programs across their entire operations. Competitors often compete on the basis of price. We differentiate ourselves from our competition as a full-service value-added supplier that is able to provide pre-sale compatibility studies and other services and sophisticated post-sale technical support on a global basis. However, we face continued pricing pressure from our customers and competitors. If we are unable to resist or to offset the effects of continued pricing pressure through our value-added services, improved operating efficiencies and reduced expenditures, or if we have to reduce our prices, our sales and profitability may suffer.

If we are unable to expand our production capacity at our European and Asian facilities, there may be a delay in fulfilling or we may be unable to fulfill customer orders and this could potentially reduce our sales and our profitability may suffer.

We have significant indebtedness and debt service payments which could negatively impact our liquidity.

We owe substantial debts and have to commit significant cash flow to debt service requirements. The level of our indebtedness, among other things, could:

- make it difficult for us to obtain any necessary future financing for working capital, capital expenditures, debt service requirements or other purposes;
- limit our flexibility in planning for, or reacting to changes in, our business; and
- make our financial results and share value more vulnerable in the event of a downturn in our business.

Our ability to meet our debt service obligations and to reduce our total indebtedness depends on the results of our product development efforts, our future operating performance, our ability to generate cash flow from the sale of our products and on general economic, financial, competitive, legislative, regulatory and other factors affecting our operations. Many of these factors are beyond our control and our future operating performance could be adversely affected by some or all of these factors.

If we incur new indebtedness in the future, the related risks that we now face could intensify. Whether we are able to make required payments on our outstanding indebtedness and to satisfy any other future debt obligations will depend on our future operating performance and our ability to obtain additional debt or equity financing.

We are subject to regulation by governments around the world, and if these regulations are not complied with, existing and future operations may be curtailed, and we could be subject to liability.

The design, development, manufacturing, marketing and labeling of certain of our products and our customers products that incorporate our products are subject to regulation by governmental authorities in the United States, Europe and other countries, including the FDA and the European Medicines Agency. The regulatory process can result in required modification or withdrawal of existing products and a substantial delay in the introduction of new products. Also, it is possible that regulatory approval may not be obtained for a new product. In addition, our analytical laboratories perform certain contract services for drug manufacturers and are subject to the FDA s current good manufacturing practices regulations. We must also register as a contract laboratory with the FDA and are subject to periodic inspections by the FDA. The Drug Enforcement Administration has licensed our contract analytical laboratories to handle and store controlled substances.

Failure to comply with applicable regulatory requirements can result in actions that could adversely affect our business and financial performance.

Our business may be adversely affected by changes in the regulation of drug products and devices.

An effect of the governmental regulation of our customers drug products, devices, and manufacturing processes is that compliance with regulations makes it costly and time consuming for customers to substitute or replace components and devices produced by one supplier with those from another. In general terms, regulation of our customers products that incorporate our components and devices has increased over time. However, if the applicable regulations were to be modified in a way that reduced the cost and time involved for customers to substitute one supplier s components or devices for those made by another, it is likely that the competitive pressure on us would increase and adversely affect our sales and profitability.

Our business may be adversely affected by risks typically encountered in international operations and fluctuations in currency exchange rates.

We conduct business in most of the major pharmaceutical markets in the world. Sales outside the U.S. account for approximately 49% of consolidated net sales. Although the general business process is similar to the domestic business, international operations are exposed to additional risks, including the following: fluctuations in currency exchange rates; transportation delays and interruptions; political and economic instability and disruptions, especially in Latin and South America, Asia, and Israel; the imposition of duties and tariffs; import and export controls; the risks of divergent business expectations or cultural incompatibility inherent in establishing and maintaining operations in foreign countries; difficulties in staffing and managing multi-national operations; labor strikes and/or disputes; limitations on our ability to enforce legal rights and remedies; and potentially adverse tax consequences.

Any of these events could have an adverse effect on our international operations in the future by reducing the demand for our products, decreasing the prices at which we can sell our products or otherwise have an adverse effect on our business, financial condition or results of operations. In addition, we may not be able to operate in compliance with foreign laws and regulations, or comply with applicable customs, currency exchange control regulations, transfer pricing regulations or any other laws or regulations to which we may be subject, in the event that these laws or regulations change.

Raw material and energy prices have a significant impact on our profitability. If raw material and/or energy prices increase, and we cannot pass those price increases on to our customers, our profitability and financial condition may suffer.

We use three basic categories of raw materials in the manufacture of our products: elastomers (which include synthetic and natural material), aluminum and plastic. In addition, our manufacturing facilities consume a wide variety of energy products to fuel, heat and cool our operations. Supply and demand factors, which are beyond our control, generally affect the price of our raw materials and utility costs. If we are unable to pass along increased raw material prices and energy costs to our customers, our profitability, and thus our financial condition, may be adversely affected. The prices of many of these raw materials and utilities are cyclical and volatile. For example, the prices of certain commodities, particularly petroleum-based raw materials, have rapidly increased in the recent past, increasing the cost of synthetic elastomers and plastic. While we generally attempt to pass along increased costs to our customers in the form of sales price increases, historically there has been a time delay between raw material and/or energy price increases and our ability to increase the prices of our products. In some circumstances, we may not be able to increase the prices of our products due to competitive pressure and other factors.

Disruptions in the supply of key raw materials and difficulties in the supplier qualification process, could adversely impact our operations.

We utilize a supply chain management strategy in our reporting segments, which involves purchasing from integrated suppliers that control their own sources of supply. This strategy has reduced the number of raw material suppliers used by us. In most cases, we purchase raw materials from a single source to assure quality and reduce costs. Due to regulatory control over our production processes, and the cost and time involved in qualifying suppliers, we rely on single source suppliers for many critical raw materials. This strategy increases the risks that our supply lines may be interrupted in the event of a supplier production problem. These risks are managed, where possible, by selecting suppliers with multiple manufacturing sites, rigid quality control systems, surplus inventory levels and other methods of maintaining supply in the case of interruption in production.

However, should one of our suppliers be unable to supply materials needed for our products or should our strategies for managing these risks be unsuccessful, we may be unable to complete the process of qualifying new replacement materials for some programs in time to meet future production needs.

Prolonged disruptions in the supply of any of our key raw materials, difficulty completing qualification of new sources of supply, or in implementing the use of replacement materials or new sources of supply could have a material adverse effect on our operating results, financial condition or cash flows.

Our operations must comply with environmental statutes and regulations, and any failure to comply could result in extensive costs which would harm our business.

The manufacture of some of our products involves the use, transportation, storage and disposal of hazardous or toxic materials and is subject to various environmental protection and occupational health and safety laws and regulations in the countries in which we operate. This has exposed us in the past, and could expose us in the future, to risks of accidental contamination and events of non-compliance with environmental laws. Any such occurrences could result in regulatory enforcement or personal injury and property damage claims or could lead to a shutdown of some of our operations, which could have an adverse effect on our business and results of operations. We currently incur costs to comply with environmental laws and regulations and these costs may become more significant.

A loss of key personnel or highly skilled employees could disrupt our operations.

Our executive officers are critical to the management and direction of our businesses. Our future success depends, in large part, on our ability to retain these officers and other capable management personnel. With the exception of our Chief Executive Officer, in general, we do not enter into employment agreements with our executive officers. We have entered into severance agreements with several of our officers that allow those officers to terminate their employment under particular circumstances, such as a change of control affecting our company. Although we believe that we will be able to attract and retain talented personnel and replace key personnel should the need arise, our inability to do so could disrupt the operations of the unit affected or our overall operations. In addition, because of the complex nature of many of our products and programs, we are generally dependent on an educated and highly skilled engineering staff and workforce. Our operations could be disrupted by a shortage of available skilled employees.

ITEM 1B. UNRESOLVED STAFF COMMENTS.

As of the filing of this annual report on Form 10-K, there were no unresolved comments from the Staff of the Securities and Exchange Commission.

ITEM 2. PROPERTIES.

Our corporate headquarters are located in a leased building at 101 Gordon Drive, Lionville, Pennsylvania. This building also houses one of our contract analytical laboratory facilities and our North American sales and marketing, administrative support and customer service functions. The following table summarizes facilities by segment and geographic region. All facilities shown are owned except where otherwise noted.

Pharmaceutical Systems
Manufacturing:
North American Operations
United States

Clearwater, FL(1)

Jersey Shore, PA

Kearney, NE

Kinston, NC

Lititz, PA

St. Petersburg, FL

South American Operations

Brazil

São Paulo

European Operations

Denmark

Horsens

England

St. Austell

France

Le Nouvion

Germany

Eschweiler(1)

Stolberg

Serbia

Kovin

Asia Pacific Operations

Singapore

Jurong

Tech Group
Manufacturing:
North American Operations
United States

Frankfort, IN(2)

Grand Rapids, MI(2)

Montgomery, PA(2)

Phoenix, AZ(2)

Scottsdale, AZ(2)

Tempe, AZ(2)

Walker, MI(3)

Williamsport, PA

Mexico

El Salto(2)(4)

Puerto Rico

Cayey

European Operations

Ireland

Dublin(2)(4)

Mold-and-Die Tool Shops:

North American Operations

United States

Erie, PA

Scottsdale, AZ(2)

Contract Analytical Laboratory:
North American Operations
United States

Maumee, OH
Mold-and-Die Tool Shops:
North American Operations
United States

Upper Darby, PA(2)
European Operations
England

Bodmin(2)

(1) This manufacturing facility is also used for research and development activities.

(2) This facility is leased in whole or in part.

(3) Acquired to replace the facility in Grand Rapids, MI in February 2007.

(4) This manufacturing facility is also used for mold and die production.

Sales office facilities in separate locations are leased under short-term arrangements.

Our manufacturing production facilities are well maintained and are operating generally on a two- or three-shift basis. We are currently expanding production capacity at the following facilities: Eschweiler, Germany; Le Nouvion, France; Bodmin, England; Jurong, Singapore and Kovin, Serbia.

As part of our effort to increase manufacturing capacity, we intend to establish a manufacturing presence in the Peoples Republic of China. Management is executing plans that will culminate in a new plastic injection-molding plant, with planned completion in 2009, and we have initiated agreements to form a joint venture with a local medical rubber manufacturer, designed to lead to a new rubber components plant that would be fully completed in 2011, subject to the transfer of manufacturing licenses and necessary government and regulatory approval. Acquisition of land-use rights and arrangements for the necessary utilities and improvements to support the new plants are being finalized.

ITEM 3. LEGAL PROCEEDINGS.

On February 2, 2006, we settled a lawsuit filed in connection with the January 2003 explosion and related fire at our Kinston, N.C. plant. Our monetary contribution was limited to the balance of our deductibles under applicable insurance policies, all of which has been previously recorded in our financial statements. We continue to be a party, but not a defendant, in a lawsuit brought by injured workers against a number of third-party suppliers to the Kinston plant. We believe exposure in that case is limited to amounts we and our workers compensation insurance carrier would otherwise be entitled to receive by way of subrogation from the plaintiffs.

We and several other potentially interested parties entered into a settlement agreement, effective November 10, 2006, with the Commonwealth of Puerto Rico relating to damages to natural resources resulting from alleged releases of hazardous substances at an industrial park in Vega Alta, Puerto Rico. The agreement provides for a release of claims by the Commonwealth in exchange for a cash settlement payment. As part of the settlement we agreed to pay $0.45 million.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS.

None.

EXECUTIVE OFFICERS OF THE COMPANY

The executive officers of the Company are set forth in the following table:

Name	Age	Position
Joseph E. Abbott	54	Vice President and Corporate Controller
Michael A. Anderson	51	Vice President and Treasurer
Steven A. Ellers	56	President and Chief Operating Officer
William J. Federici	47	Vice President and Chief Financial Officer
John R. Gailey III	52	Vice President, General Counsel and Secretary
Robert S. Hargesheimer	49	President of the Tech Group
Robert J. Keating	58	President, Europe and Asia Pacific, Pharmaceutical Systems Division
Richard D. Luzzi	55	Vice President, Human Resources
Donald A. McMillan	48	President, North America, Pharmaceutical Systems Division
Donald E. Morel, Jr., Ph.D.	49	Chairman of the Board and Chief Executive Officer

Joseph E. Abbott

Mr. Abbott joined us in 1997 as Director of Internal Audit. He was promoted to Corporate Controller in 2000 and elected a Vice President in 2002.

Michael A. Anderson

Mr. Anderson joined us in 1992 as Director of Taxes. He held several positions in finance and business development before being elected Vice President and Treasurer in June 2001.

Steven A. Ellers

Mr. Ellers joined us in 1983. He has held numerous positions in operations before being elected Senior Vice President and Chief Financial Officer in March 1998. In June 2000, he was elected Executive Vice President and in June 2002 was elected President, Pharmaceutical Systems Division. He was elected President and Chief Operating Officer in June 2005.

William J. Federici

Mr. Federici joined us in August 2003. He was previously National Industry Director for Pharmaceuticals of KPMG LLP (accounting firm) from June 2002 until August 2003, and prior thereto, an audit partner with Arthur Andersen, LLP.

John R. Gailey III

Mr. Gailey joined us in 1991 as Corporate Counsel and Secretary. He was elected General Counsel in 1994 and Vice President in 1995.

Robert S. Hargesheimer

Mr. Hargesheimer joined us in 1992. He served in numerous operational and general managerial roles before being elected President of the Device Group in April 2003. He was elected President of the Tech Group in October 2005.

Robert J. Keating

Mr. Keating joined us in 1997. He served in country general management and regional sales and marketing-management positions before being elected President, Europe and Asia Pacific, Pharmaceutical Systems Division in April 2002.

Richard D. Luzzi

Mr. Luzzi joined us in June 2002. Prior to his service at West, he served as Vice President Human Resources of GS Industries, a steel manufacturer.

Donald A. McMillan

Mr. McMillan joined us in May 1984. He served in numerous operations, sales and sales-management and marketing positions prior to being elected President, North America, Pharmaceutical Systems Division in October 2005.

Donald E. Morel, Jr., Ph.D.

Dr. Morel has been Chairman of the Board of the Company since March 2003 and our Chief Executive Officer since April 2002. He was our President from April 2002 to June 2006, Chief Operating Officer from May 2001 to April 2002, Division President, Drug Delivery Systems from October 1999 to May 2001, and prior thereto, Group President.

PART II

ITEM 5. MARKET FOR REGISTRANT S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES.

Our common stock is listed on the New York Stock Exchange. The high and low prices for the stock for each calendar quarter in 2006 and 2005 and full year 2006 and 2005 were as follows:

	First Quarter		Second Quarter		Third Quarter		Fourth Quarter		Year	
	High	Low	High	Low	High	Low	High	Low	High	Low
2006	34.72	24.83	37.97	32.75	42.66	31.43	52.77	38.00	52.77	24.83
2005	27.08	23.25	28.89	22.90	29.99	25.72	29.69	18.58	29.99	18.58

As of January 31, 2007, we had 1,377 shareholders of record. There were also 2,189 holders of shares registered in nominee names. Our common stock paid a quarterly dividend of $.11 per share in each of the first three quarters of 2005; $.12 per share in the fourth quarter of 2005 and each of the first three quarters of 2006; and $.13 per share in the fourth quarter of 2006.

Issuer Purchases of Equity Securities

The following table shows information with respect to purchases of our common stock made during the three months ended December 31, 2006 by us or any of our affiliated purchasers as defined in Rule 10b-18(a)(3) under the Exchange Act:

Period	Total number of shares purchased(1)	Average price paid per share	Total number of shares purchased as part of a publicly announced plan or programs	Maximum number of shares that may yet be purchased under the plan or program
October 1, 2006 October 31, 2006	90	$ 41.33		
November 1, 2006 November 30, 2006	277	42.72		
December 1, 2006 December 31, 2006	140	50.25		
Total	507	$ 44.55		

(1) Includes 507 shares purchased on behalf of employees enrolled in the Non-Qualified Deferred Compensation Plan for Designated Officers (Amended and Restated Effective January 1, 2004). Under the plan, Company match contributions are delivered to the plan s investment administrator, who upon receipt, purchases shares in the open market and credits the shares to individual plan accounts.

Performance Graph

The following graph compares the cumulative total return to holders of the Company s common stock with the cumulative total return of the Standard & Poor s Small Cap 600 Index, the Standard & Poor s 600 Health Care Equipment & Supplies and of a Company-selected peer group for the five years ended December 31, 2006. Cumulative total return to shareholders is measured by dividing total dividends (assuming dividend reinvestment) plus the per-share price change for the period by the share price at the beginning of the period. The Company s cumulative shareholder return is based on an investment of $100 on December 31, 2001 and is compared to the cumulative total return of the Small Cap 600 Index, the 600 Health Care Equipment & Supplies and the peer group over the period with a like amount invested.

We selected the peer group companies based principally on nature of business, revenues, market complexity, products and manufacturing, employee base, technology base, market share, type of customer and customer relationship. The peer group is composed of Cambrex Corp., AptarGroup, Inc., Alaris Medical Systems, Inc. (through 2003; acquired by Cardinal Health in June 2004), Viasys Healthcare Inc., Andrx Corp. (through 2005; acquired by Watson Pharmaceuticals in November 2006) and Nektar Therapeutics, Inc. (formerly Inhale Therapeutic Systems, Inc.).

Comparison of Cumulative Five Year Total Return

ITEM 6. SELECTED FINANCIAL DATA.

FIVE-YEAR SUMMARY
West Pharmaceutical Services, Inc. and Subsidiaries

	2006	2005	2004	2003	2002
	(in millions, except per share data)				
SUMMARY OF OPERATIONS					
Net sales	$ 913.3	699.7	541.6	483.4	412.8
Operating profit	101.0	73.4	49.4	72.4	42.0
Income from continuing operations	61.5	46.0	34.3	43.1	22.9
Income (loss) from discontinued operations	5.6	0.4	(14.1)	(11.0)	(4.2)
Net income	$ 67.1	46.4	20.2	32.1	18.7
Income per share from continuing operations:					
Basic(1)	$ 1.91	1.48	1.14	1.49	.79
Assuming dilution(2)	1.83	1.41	1.11	1.49	.79
Income (loss) per share from discontinued operations:					
Basic(1)	.18	.01	(.47)	(.38)	(.14)
Assuming dilution(2)	.17	.01	(.46)	(.38)	(.14)
Average common shares outstanding	32.2	31.1	30.0	29.0	28.9
Average shares assuming dilution	33.6	32.5	30.8	29.1	28.9
Dividends paid per common share	$ .49	.45	.425	.405	.385
YEAR-END FINANCIAL POSITION					
Working capital	$ 124.8	118.8	115.7	102.7	78.3
Total assets	918.2	833.5	657.8	616.8	523.4
Total invested capital:					
Total debt	236.3	281.0	160.8	175.0	175.0
Minority interests	4.8	4.1			
Shareholders equity	414.5	339.9	306.8	262.5	206.1
Total invested capital	$ 655.6	625.0	467.6	437.5	381.1
PERFORMANCE MEASUREMENTS(3)					
Gross margin(a)	28.7 %	27.7 %	29.0 %	31.8 %	28.6 %
Operating profitability(b)	11.1 %	10.5 %	9.1 %	15.0 %	10.2 %
Effective tax rate	29.1 %	29.0 %	27.2 %	36.0 %	28.9 %
Return on invested capital(c)	11.2 %	9.5 %	7.9 %	8.6 %	7.9 %
Total debt as a percentage of total invested capital	36.0 %	45.0 %	34.4 %	40.0 %	45.9 %
Research and development expenses	$ 11.1	7.9	6.8	6.3	5.4
Corporate cash flow(d):					
Operating cash flow	139.4	85.6	81.0	83.7	59.1
Less: capital expenditures	90.3	54.1	57.4	60.4	36.0
Less: dividends paid	15.9	14.1	12.8	11.8	11.1
Total Corporate cash flow	$ 33.2	17.4	10.8	11.5	12.0
Stock price range	$ 52.77-24.83	29.99-18.58	25.49-16.38	17.90-8.33	16.25-8.13

(1) Based on average common shares outstanding.

(2) Based on average shares, assuming dilution.

(3) Performance measurements represent indicators commonly used in the financial community. They are not measures of financial performance under U.S. generally accepted accounting principles (GAAP).

(a) Net sales minus cost of goods and services sold, including applicable depreciation and amortization, divided by net sales.

(b) Operating profit divided by net sales.

(c) Operating profit multiplied by one minus the effective tax rate divided by average total invested capital. The return on invested capital calculation for 2003 excludes a $17.3 million insurance gain recorded in operating profit.

(d) Corporate cash flow is a non-GAAP measure used by management to assess liquidity and it is a component used to determine performance under our management incentive program. Non-GAAP financial measures are intended to explain or aid in the use of, not as a substitute for, the related GAAP financial measures.

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Factors affecting the comparability of the information reflected in the selected financial data:

- 2006 income from continuing operations includes a pretax loss on extinguishment of debt of $5.9 million ($4.1 million, net of tax, or $0.12 per diluted share) and a gain on a tax refund issue of $0.6 million or $0.02 per diluted share.

- On December 31, 2006, we adopted Statement of Financial Accounting Standard No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158), which requires the recognition of the overfunded or underfunded status of a defined benefit postretirement plan as measured by the difference between the fair value of plan assets and the benefit obligation. The adoption of SFAS 158 resulted in a reduction of shareholder s equity of $19.7 million ($32.0 million pre-tax, less a $12.3 million deferred tax benefit) at December 31, 2006.

- During 2005, we acquired the businesses of Monarch, TGI and Medimop (*See Note 2 Acquisitions, for further information)*. Our financial statements include the results of acquired businesses for periods subsequent to their acquisition date.

- 2005 income from continuing operations includes incremental income tax expense of $1.5 million associated with the repatriation of foreign sourced income under the American Jobs Creation Act of 2004 and a reduction in an estimate for restructuring costs which increased income from continuing operations by $1.3 million.

- On January 1, 2005 we adopted Statement of Financial Accounting Standard 123 Share-Based Payment Revised 2004 (SFAS 123(R)) which required the recognition of compensation expense connec