WEST PHARMACEUTICAL SERVICES INC
Form 10-Q
August 03, 2007

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the Quarterly Period Ended June 30, 2007

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

For the transition period from to

Commission File Number 1-8036

WEST PHARMACEUTICAL SERVICES, INC.

(Exact name of registrant as specified in its charter)

Pennsylvania	**23-1210010**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification Number)

101 Gordon Drive, PO Box 645, Lionville, PA	**19341-0645**
(Address of principal executive offices)	(Zip Code)

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes x No o

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

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

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

As of June 30, 2007, there were 33,148,604 shares of the Registrant s common stock outstanding.

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CAUTIONARY FACTORS THAT MAY AFFECT FUTURE RESULTS

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

Our disclosure and analysis in this Form 10-Q contains some forward-looking statements that 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 and other words and terms of similar m 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 timeliness and effects of capacity expansions, including the effects of delays associated with construction, availability and price of capital goods, and necessary internal, governmental and customer approvals; the availability of labor to meet increased demand; competition from other providers; the timely and successful negotiations of sales contracts with four of the Company s largest customers during the second half of 2007; 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; changing interest rates and investment returns that can affect the Company s cost of funds and return on invested funds; interruptions or weaknesses in our supply chain, which could cause delivery delays or restrict the availability of raw materials and key bought-in components and finished products; raw-material price escalation, particularly petroleum-based raw materials, and 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 our Annual Report on Form 10-K under the caption RISK FACTORS , as supplemented from time to time in subsequently filed Quarterly Reports on Form 10-Q, and other documents we may file with the Securities and Exchange Commission. We undertake no obligation to publicly update forward-looking statements, whether as a result of new information, future events or otherwise.

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

Exubera® is a registered trademark of Pfizer Inc.

PART I. FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(in millions, except per share data)	**2007**	**2006**	**2007**	**2006**
Net sales	$ 263.7	$ 240.2	$ 521.3	$ 463.0
Cost of goods sold	187.0	169.1	364.2	324.2
Gross profit	76.7	71.1	157.1	138.8
Research and development	3.8	2.6	7.4	5.1
Selling, general and administrative expenses	38.2	34.9	75.2	71.2
Other (income) expense, net	(0.2)	1.5	0.1	2.2
Operating profit	34.9	32.1	74.4	60.3
Loss on debt extinguishment				5.9
Interest expense	3.9	3.3	6.7	7.0
Interest income	(2.2)	(0.5)	(2.8)	(1.2)
Income before income taxes and minority interests	33.2	29.3	70.5	48.6
Provision for income taxes	7.0	9.2	18.2	14.5
Minority interests	0.1	0.1	0.2	0.2
Income from consolidated operations	26.1	20.0	52.1	33.9
Equity in net income of affiliated companies	0.4	0.7	0.9	1.1
Income from continuing operations	26.5	20.7	53.0	35.0
Discontinued operations, net of tax	(0.5)		(0.5)	3.8
Net income	$ 26.0	$ 20.7	$ 52.5	$ 38.8
Net income per share:				
Basic				
Continuing operations	$ 0.80	$ 0.64	$ 1.61	$ 1.10
Discontinued operations	(0.01)		(0.01)	0.12
	$ 0.79	$ 0.64	$ 1.60	$ 1.22
Assuming dilution:				
Continuing operations	$ 0.74	$ 0.62	$ 1.51	$ 1.05
Discontinued operations	(0.01)		(0.01)	0.11
	$ 0.73	$ 0.62	$ 1.50	$ 1.16
Average common shares outstanding	32.9	32.1	32.8	31.9
Average shares assuming dilution	37.1	33.6	35.8	33.4
Dividends declared per common share	$ *	$ 0.12	$ 0.13	$ 0.24

* $0.13 dividend was declared on July 10, 2007 and will be paid on August 1, 2007 to shareholders of record on July 18, 2007.

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, 2007	December 31, 2006
ASSETS		
Current assets:		
Cash, including cash equivalents	$ 177.3	$ 47.1
Accounts receivable	136.7	109.5
Inventories	111.7	97.5
Deferred income taxes	5.6	5.3
Other current assets	21.0	22.3
Total current assets	452.3	281.7
Property, plant and equipment	807.2	757.4
Less accumulated depreciation and amortization	398.7	372.7
Property, plant and equipment, net	408.5	384.7
Investments in affiliated companies	29.9	29.7
Goodwill	103.8	102.8
Pension asset	10.7	12.1
Deferred income taxes	47.2	29.8
Intangible assets, net	67.9	66.3
Other assets	22.4	11.1
Total Assets	$ 1,142.7	$ 918.2
LIABILITIES AND SHAREHOLDERS EQUITY		
Current liabilities:		
Notes payable and other current debt	$ 0.5	$ 0.5
Accounts payable	53.5	61.2
Pension and other postretirement benefits	1.7	1.6
Accrued salaries, wages and benefits	34.9	35.3
Income taxes payable	19.3	17.7
Deferred income taxes	2.2	2.7
Other current liabilities	37.0	37.9
Total current liabilities	149.1	156.9
Long-term debt	384.2	235.8
Deferred income taxes	43.0	43.5
Pension and other postretirement benefits	42.8	41.2
Other long-term liabilities	24.5	21.5
Total Liabilities	643.6	498.9
Commitments and contingencies		
Minority interests	4.9	4.8
Shareholders equity	494.2	414.5
Total Liabilities and Shareholders Equity	$ 1,142.7	$ 918.2

See accompanying notes to condensed consolidated financial statements.

CONDENSED CONSOLIDATED STATEMENT OF SHAREHOLDERS EQUITY (UNAUDITED)

West Pharmaceutical Services, Inc. and Subsidiaries

(in millions, except per share data)	Common Stock Number of shares	Common Stock	Capital in excess of par value	Retained earnings	Accumulated other comprehensive income (loss)	Treasury Stock Number of shares	Treasury Stock	Total
Balance, December 31, 2006	34.3	$ 8.6	$ 52.8	$ 375.7	$ 10.6	(1.4)	$ (33.2)	$ 414.5
Cumulative effect of adoption of FIN 48 (see Note 4)				21.6				21.6
Net income				52.5				52.5
Stock-based compensation			3.4					3.4
Shares issued under stock plans			1.7			0.3	1.4	3.1
Shares repurchased for employee tax withholdings			(1.0)			(0.1)	(2.6)	(3.6)
Excess tax benefit from stock plans			0.7					0.7
Cash dividends declared ($0.13 per share)				(4.3)				(4.3)
Changes other comprehensive income					6.3			6.3
Balance, June 30, 2007	34.3	$ 8.6	$ 57.6	$ 445.5	$ 16.9	(1.2)	$ (34.4)	$ 494.2

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, 2007**	**2006**
Cash flows from operating activities:		
Net income	$ 52.5	$ 38.8
Loss (gain) from discontinued operations, net of tax	0.5	(3.8)
Depreciation	25.7	23.4
Amortization	2.6	2.4
Other non-cash items, net	4.5	10.8
Changes in assets and liabilities	(40.1)	(18.1)
Net cash provided by operating activities	45.7	53.5
Cash flows from investing activities:		
Acquisition of patents and other assets	(4.2)	
Property, plant and equipment acquired	(45.1)	(26.8)
Proceeds from sale of investment	0.7	
Other		0.3
Net cash used in investing activities	(48.6)	(26.5)
Cash flows from financing activities:		
Issuance of 4% convertible debt, net of costs	156.4	
Prepayment of senior notes		(100.0)
Issuance of senior unsecured notes		100.1
Repayments under revolving credit agreements, net	(15.0)	(27.8)
Changes in other debt, including overdrafts	(0.4)	0.2
Dividend payments	(8.6)	(7.8)
Excess tax benefit from stock option exercises	0.7	
Shares repurchased for employee tax withholdings	(3.6)	(1.3)
Issuance of common stock	2.5	4.4
Net cash provided by (used in) financing activities	132.0	(32.2)
Cash flows provided by operating activities of discontinued operations		0.6
Net cash provided by discontinued operations		0.6
Effect of exchange rates on cash	1.1	1.9
Net increase (decrease) in cash and cash equivalents	130.2	(2.7)
Cash, including cash equivalents at beginning of period	47.1	48.8
Cash, including cash equivalents at end of period	$ 177.3	$ 46.1

See accompanying notes to condensed consolidated financial statements.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Note 1: Summary of Significant Accounting Policies

Basis of Presentation

The condensed consolidated financial statements included herein are unaudited and have been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting and Securities and Exchange Commission (SEC) regulations. In the opinion of management, these financial statements include all adjustments which are of a normal recurring nature, necessary for a fair presentation of the financial position, results of operations, cash flows and the change in shareholders equity for the periods presented. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. The condensed consolidated financial statements for the three and six month periods ended June 30, 2007 should be read in conjunction with the consolidated financial statements and notes thereto of West Pharmaceutical Services, Inc. (which may be referred to as West , the Company , we , us or our), appearing in our 2006 Annual Report on Form 10-K. The results of operations for any inte period are not necessarily indicative of results for the full year.

Reclassification

Resulting from the formation of a new innovation project team aimed at developing and strategically acquiring technology and products that complement our core injectable packaging and delivery systems business, we are now reporting a separate research and development line item on our income statement. Amounts previously reported as part of selling, general and administrative expense and cost of goods sold have been reclassified to conform to current period classifications.

Income Taxes

The tax rate used for interim periods is the estimated annual effective consolidated tax rate, based on the current estimate of full year results, except that taxes related to specific events, if any, are recorded in the interim period in which they occur. In the second quarter of 2007, we recorded $2.5 million, or $0.06 per diluted share, in tax benefits resulting from the revision of certain tax planning strategies and the completion of related documentation supporting research and development credits related to prior year tax returns. In the first quarter of 2006, we recognized a $0.4 million, or $0.01 per diluted share, tax benefit in continuing operations relating to the resolution of a claim for a tax refund associated with the disposition of our former plastic molding facility in Puerto Rico and related interest income, net of tax, of $0.2 million. The impact of this tax refund was largely offset by a $0.4 million provision, or $0.01 per diluted share, recorded in the second quarter of 2006 related to tax issues within our Irish finance company.

Note 2: Discontinued Operations

In the second quarter of 2007, we recorded a $0.5 million provision for claims resulting from the 2005 divestiture of our former drug delivery business. Our six month results ended June 30, 2006 include $3.8 million as income from discontinued operations, related to the resolution of our claim for certain tax benefits associated with the 2001 disposition of our former contract manufacturing and packaging business. For the six month period ended June 30, 2006, operating cash flow from discontinued operations was $0.6 million, representing the partial collection of the approved tax claims.

Note 3: Other (Income) Expense

Other (income) expense for the three and six month periods ended June 30 was as follows:

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(in millions)	**2007**	**2006**	**2007**	**2006**
Foreign exchange (gains) losses	$ (0.5)	$ 0.4	$ (0.3)	$ 0.2
Loss on sales of equipment	0.3	0.4	0.5	0.8
Gain on sale of investment			(0.4)	
Other		0.7	0.3	1.2
	$ (0.2)	$ 1.5	$ 0.1	$ 2.2

Other (income) expense for the six month period ended June 30, 2007 includes a $0.4 million gain recorded by the Tech Group segment for the sale of an investment in a tool shop located in Ireland. Other (income) expense for the six month period ended June 30, 2006 includes a $0.3 million write-off of a discontinued software project and a $0.5 million write-off of a prepaid royalty that is not expected to be recovered against future sales of a reconstitution product.

Note 4: Income Taxes

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

As of January 1, 2007, following the adoption of FIN 48, we had approximately $12.8 million of total gross unrecognized tax benefits, which, if recognized, would favorably impact the effective income tax rate. During the second quarter of 2007, our liability for unrecognized tax benefits increased by $0.6 million, as a result of tax positions taken during the current period. The Company anticipates that the amount of unrecognized tax benefits may change in the next 12 months; however, due to uncertainties in timing, it is not reasonably possible to estimate a range of the possible change.

Interest costs and penalties related to income taxes are classified as interest expense and other expense, respectively, in the Company s financial statements. As of the adoption date, we had accrued interest of $0.6 million, which did not materially change during the six months ended June 30, 2007.

Because we are a global organization, we and our subsidiaries file income tax returns in the U.S. federal jurisdiction and various state and foreign jurisdictions. As of January 1 and June 30, 2007, we were subject to examination in the U.S. federal tax jurisdiction for the 2003-2006 tax years. We were also subject to examination in various state and foreign jurisdictions for the 2000-2006 tax years.

Note 5: Comprehensive Income

Comprehensive income for the three and six month periods ended June 30 was as follows:

(in millions)	**Three Months Ended June 30, 2007**	**2006**	**Six Months Ended June 30, 2007**	**2006**
Net income	$ 26.0	$ 20.7	$ 52.5	$ 38.8
Other comprehensive income, net of tax				
Foreign currency translation adjustments	4.8	5.7	5.1	8.7
Pension and postretirement liability adjustments	0.1	(0.3)	0.3	(0.3)
Unrealized gains on derivatives	1.1	1.0	0.9	2.2
Other comprehensive income, net of tax	6.0	6.4	6.3	10.6
Comprehensive income	$ 32.0	$ 27.1	$ 58.8	$ 49.4

Note 6: Convertible Debentures

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

The debentures are convertible into shares of the Company s common stock at an initial conversion rate, subject to adjustment, of 17.8336 shares per $1,000 of principal amount, which equals a conversion price of approximately $56.07 per share. The holders may convert their debentures at any time prior to maturity. On or after March 20, 2012, if our common stock closing price exceeds 150% of the then prevailing conversion price for at least 20 trading days during any 30 consecutive trading day period, we have the option to cause the debentures to be automatically converted into West shares at the prevailing conversion rate. As of June 30, 2007, no debentures were converted. Accrued interest payable at June 30, 2007 was $1.9 million and is recorded in accrued expenses.

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

Note 7: Net Income Per Share

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

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(in millions, except per share data)	**2007**	**2006**	**2007**	**2006**
Income from continuing operations	$ 26.5	$ 20.7	$ 53.0	$ 35.0
Discontinued operations, net of tax	(0.5)		(0.5)	3.8
Net income, as reported, for basic net income per share	26.0	20.7	52.5	38.8
Plus: interest expense on convertible debt, net of tax	1.1		1.3	
Net income, for diluted net income per share	$ 27.1	$ 20.7	$ 53.8	$ 38.8
Weighted average common shares outstanding for basic net income per share	32.9	32.1	32.8	31.9
Assumed stock options exercised and awards vested, based on the treasury stock method	1.3	1.5	1.3	1.5
Assumed conversion of convertible debt, based on the if-converted method	2.9		1.7	
Weighted average shares outstanding for diluted net income per share	37.1	33.6	35.8	33.4

Options to purchase 0.3 million shares of common stock were excluded from the computation of diluted earnings per share for both the three and six month periods ended June 30, 2007, as their impact would be antidilutive. There were 0.3 million and 0.2 million antidilutive options outstanding during the three and six month periods ended June 30, 2006, respectively.

Note 8: Segment Information

Net sales and operating profit by reporting segment were as follows:

(in millions)	Three Months Ended June 30, 2007	2006	Six Months Ended June 30, 2007	2006
Net Sales				
Pharmaceutical Systems	$ 189.3	$ 166.4	$ 380.7	$ 326.4
Tech Group	77.7	76.5	146.7	142.2
Eliminations	(3.3)	(2.7)	(6.1)	(5.6)
Net Sales	$ 263.7	$ 240.2	$ 521.3	$ 463.0
Operating Profit				
Pharmaceutical Systems	$ 39.8	$ 38.0	$ 84.5	$ 73.8
Tech Group	3.5	4.7	6.3	9.6
Corporate costs	(4.9)	(5.6)	(10.9)	(11.6)
Stock-based compensation costs	(1.9)	(2.7)	(2.3)	(6.9)
Domestic pension expense	(1.6)	(2.3)	(3.2)	(4.6)
Operating profit	34.9	32.1	74.4	60.3
Loss on debt extinguishment				(5.9)
Interest expense	(3.9)	(3.3)	(6.7)	(7.0)
Interest income	2.2	0.5	2.8	1.2
Income before income taxes	$ 33.2	$ 29.3	$ 70.5	$ 48.6

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

Note 9: Inventories

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

(in millions)	June 30, 2007	December 31, 2006
Finished goods	$ 44.0	$ 43.4
Work in process	18.4	13.4
Raw materials	49.3	40.7
	$ 111.7	$ 97.5

Note 10: Stock-Based Compensation

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

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

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

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

In the second quarter of 2007, there were 18,900 deferred stock units granted to non-employee directors under the 2007 Plan. As of June 30, 2007, there were approximately 4,048,555 shares remaining in the 2007 Plan for future grants.

Note 11: Benefit Plans

The components of net pension expense for the three month period ended June 30 are as follows:

	Pension benefits		Other retirement benefits	
(in millions)	**2007**	**2006**	**2007**	**2006**