WEST PHARMACEUTICAL SERVICES INC
Form 10-Q
August 05, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2011

or

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

For the transition period from to

Commission File Number 1-8036

WEST PHARMACEUTICAL SERVICES, INC.
(Exact name of registrant as specified in its charter)

Pennsylvania (State or other jurisdiction of incorporation or organization)	23-1210010 (I.R.S. Employer Identification Number)
101 Gordon Drive, PO Box 645, Lionville, PA (Address of principal executive offices)	19341-0645 (Zip Code)

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

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

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 þ No o

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

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

As of July 31, 2011, there were 33,672,936 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 June 30,		Six Months Ended June 30,	
	2011	2010	2011	2010
Net sales	$ 307.9	$ 281.8	$ 603.3	$ 556.5
Cost of goods and services sold	223.3	198.6	430.7	391.1
Gross profit	84.6	83.2	172.6	165.4
Research and development	7.3	5.7	14.2	11.1
Selling, general and administrative expenses	48.5	45.8	99.2	92.4
Restructuring and other items (Note 2)	1.0	1.2	2.7	2.5
Operating profit	27.8	30.5	56.5	59.4
Interest expense	4.6	3.9	9.3	7.9
Interest income	(0.3)	(0.1)	(0.5)	(0.2)
Income before income taxes	23.5	26.7	47.7	51.7
Income tax expense	5.3	6.6	11.3	12.7
Equity in net income of affiliated companies	1.9	1.6	3.3	2.6
Net income	$ 20.1	$ 21.7	$ 39.7	$ 41.6
Net income per share:				
Basic	$ 0.60	$ 0.65	$ 1.18	$ 1.25
Diluted	$ 0.57	$ 0.62	$ 1.13	$ 1.19
Weighted average shares outstanding:				
Basic	33.6	33.3	33.5	33.2
Diluted	37.0	36.7	36.9	36.6
Dividends declared per share	$ 0.17	$ 0.16	$ 0.34	$ 0.32

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, 2011	December 31, 2010
ASSETS		
Current assets:		
Cash, including cash equivalents	$ 110.4	$ 110.2
Accounts receivable, net	165.7	126.4
Inventories	161.2	147.0
Deferred income taxes	11.5	10.5
Other current assets	61.6	42.5
Total current assets	510.4	436.6
Property, plant and equipment	1,143.9	1,077.2
Less accumulated depreciation and amortization	562.4	522.4
Property, plant and equipment, net	581.5	554.8
Investments in affiliated companies	51.2	48.2
Goodwill	116.1	112.5
Deferred income taxes	71.9	64.5
Intangible assets, net	54.2	55.1
Other noncurrent assets	30.0	22.6
Total Assets	$ 1,415.3	$ 1,294.3
LIABILITIES AND EQUITY		
Current liabilities:		
Notes payable and other current debt	$ 6.3	$ 0.3
Accounts payable	73.4	63.2
Pension and other postretirement benefits	2.2	2.1
Accrued salaries, wages and benefits	48.2	48.3
Income taxes payable	6.1	5.0
Taxes other than income	13.3	10.0
Other current liabilities	43.2	40.8
Total current liabilities	192.7	169.7
Long-term debt	367.2	358.1
Deferred income taxes	21.1	20.0
Pension and other postretirement benefits	92.0	87.2
Other long-term liabilities	46.3	33.6
Total Liabilities	719.3	668.6
Commitments and contingencies (Note 13)		
Total Equity	696.0	625.7
Total Liabilities and Equity	$ 1,415.3	$ 1,294.3

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	Number of Treasury Shares	Treasury Stock	Retained earnings	Accumulated other comprehensive loss	Total
Balance, December 31, 2010	34.3	$ 8.6	$ 77.3	(1.0)	$ (41.5)	$ 612.6	$ (31.3)	$ 625.7
Net income						39.7		39.7
Stock-based compensation			5.4					5.4
Shares issued under stock plans			(11.2)	0.4	17.2			6.0
Shares repurchased for employee tax withholdings				(0.1)	(3.5)			(3.5)
Excess tax benefit from employee stock plans			3.1					3.1
Dividends declared						(11.1)		(11.1)
Other comprehensive income, net of tax							30.7	30.7
Balance, June 30, 2011	34.3	$ 8.6	$ 74.6	(0.7)	$ (27.8)	$ 641.2	$ (0.6)	$ 696.0

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, 2011	2010
Cash flows from operating activities:		
Net income	$ 39.7	$ 41.6
Depreciation	36.5	33.2
Amortization	2.3	2.2
Other non-cash items, net	3.4	1.0
Changes in assets and liabilities	(32.7)	(34.9)
Net cash provided by operating activities	49.2	43.1
Cash flows from investing activities:		
Capital expenditures	(37.8)	(32.6)
Acquisition of business, net of cash acquired	-	(1.3)
Acquisition of patents and other long-term assets	(0.4)	-
Purchases of investments, net	(14.6)	(2.8)
Other, net	0.6	0.1
Net cash used in investing activities	(52.2)	(36.6)
Cash flows from financing activities:		
Borrowings under revolving credit agreements, net	6.0	21.9
Repayment of former credit facility	-	(26.6)
Debt issuance costs	(0.3)	(1.6)
Changes in other debt	(0.5)	(0.5)
Dividend payments	(11.4)	(10.7)
Excess tax benefit from employee stock plans	3.1	2.0
Shares repurchased for employee tax withholdings	(3.5)	(2.1)
Issuance of common stock from treasury	3.9	2.4
Net cash used in financing activities	(2.7)	(15.2)
Effect of exchange rates on cash	5.9	(6.9)
Net increase (decrease) in cash and cash equivalents	0.2	(15.6)
Cash, including cash equivalents at beginning of period	110.2	83.1
Cash, including cash equivalents at end of period	$ 110.4	$ 67.5

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 (“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. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with 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, 2011 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, 2010 (“2010 Annual Report”). The results of operations for any interim period are not necessarily indicative of results for the full year.

Note 2: Restructuring and Other Items

Restructuring and other items consisted of:

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in millions)	2011	2010	2011	2010
Restructuring and related charges:				
Severance and post-employment benefits	$ 0.3	$ -	$ 1.7	$ 0.4
Impairments and asset write-offs	0.4	0.3	0.7	0.4
Other restructuring charges	0.6	0.1	0.8	0.2
Total restructuring and related charges	1.3	0.4	3.2	1.0
Acquisition-related contingencies	(0.7)	-	(0.7)	-
Foreign exchange losses and other	0.4	0.8	0.2	1.5
Total restructuring and other items	$ 1.0	$ 1.2	$ 2.7	$ 2.5

Restructuring and Related Charges

In December 2010, our Board of Directors approved a restructuring plan designed to reduce our cost structure and improve operating efficiency. The plan involves the 2011 closure of a plant in the U.S., a longer-term reduction in operations at a manufacturing facility in England, and the elimination of certain operational and administrative positions at various other locations. We expect to incur total restructuring and related charges of approximately $22.0 million to $23.0 million through the end of 2012, which consists of $15.0 million to $16.0 million in cash expenditures for severance and costs associated with the plant closure and fixed asset relocation, and approximately $7.0 million in non-cash asset impairment and disposal charges. We have incurred $14.5 million of restructuring and related charges, as part of this plan, in December of 2010 and $3.2 million during the six months ended June 30, 2011. We currently expect to incur total charges of approximately $5.0 million during the full year 2011, and the remainder during 2012.

During the first six months of 2010, we incurred $1.0 million in restructuring and related charges in connection with the 2009 restructuring program.

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The following table presents activity related to our restructuring obligations during the six months ended June 30, 2011:

($ in millions)	Severance and benefits	Other Costs	Total
Balance, December 31, 2010	$ 10.2	$ -	$ 10.2
Charges	1.7	0.8	2.5
Cash payments	(2.3)	(0.8)	(3.1)
Foreign currency translation adjustments	(0.1)	-	(0.1)
Balance, June 30, 2011	$ 9.5	$ -	$ 9.5

Other Items

During the second quarter of 2011, we reduced the contingent consideration liability related to the July 2009 acquisition of the eris™ safety syringe system by $0.8 million. The liability as of June 30, 2011 is now zero, which reflects our assessment that none of the contractual operating targets will be achieved over the earnout period ending in 2014. Partially offsetting this reduction was an increase in contingent consideration expense related to our 2010 acquisition of La Model, Ltd.

Note 3: Income Taxes

The tax provision for interim periods is determined using the estimated annual effective 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, 2011, our effective tax rate was 22.5% and 23.7%, respectively, compared with 24.6% for both periods in 2010. Discrete tax items did not have a significant impact on our effective tax rate for the three and six month periods ended June 30, 2011. In the second quarter of 2010, we recognized a $0.5 million discrete tax charge.

It is reasonably possible that, due to the expiration of statutes and the closing of audits during the next twelve months, the total amount of unrecognized tax benefits may be reduced further by approximately $0.8 million, resulting in a favorable impact on the effective tax rate. During each of the six month periods ended June 30, 2011 and 2010, we recognized $0.1 million in tax-related interest expense. The balance of accrued interest related to uncertain tax positions was $0.5 million and $0.4 million at June 30, 2011 and December 31, 2010, respectively.

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. We are subject to examination in the U.S. Federal tax jurisdiction for tax years 2007 through 2010. We are also open for examination in various state and foreign jurisdictions for tax years 2005 through 2010.

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.

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Interest Rate Risk

On February 25, 2011, we exercised an option to purchase our new corporate office and research facility. Refer to Note 13, Commitments and Contingent Liabilities, for additional details. In conjunction with this, we anticipate that during the first quarter of 2013, we will borrow $43.0 million pursuant to a five-year term loan with a variable interest rate. In anticipation of this debt, we entered into a forward-start interest rate swap with the same notional amount in order to hedge the variability in cash flows due to changes in the applicable interest rate over the five-year period beginning January 2013. Under this swap, we will 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 the forward-start interest rate swap as a cash flow hedge.

As a result of our normal borrowing activities, we have entered into long-term debt obligations with both fixed and variable interest rates. As of June 30, 2011, we have two interest rate swap agreements outstanding. Both swap agreements are designated as cash flow hedges to protect against volatility in the interest rates payable on our $50.0 million note maturing July 28, 2012 ("Series A Note") and our $25.0 million note maturing July 28, 2015 ("Series B Note"). Under both of these swaps, we will 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 agreements effectively fix the interest rates payable on the Series A and B notes at 5.32% and 5.51%, respectively.

Foreign Exchange Rate Risk

As described in more detail below, during 2011, we entered into several foreign currency hedge contracts that were designated as cash flow hedges of forecasted transactions denominated in foreign currencies.

We entered into a series of foreign currency contracts intended to hedge the currency risk associated with a portion of our forecasted Japanese Yen ("JPY") denominated purchases of inventory from Daikyo Seiko Ltd. made by certain European subsidiaries. As of June 30, 2011, there were six monthly contracts outstanding at ¥95.0 million each, for an aggregate notional amount of ¥570.0 million (approximately $7.0 million).

We have 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 by certain European subsidiaries. As of June 30, 2011, there were six monthly contracts outstanding at $0.8 million each, for an aggregate notional amount of $4.8 million.

In addition, we entered into a series of foreign currency contracts to hedge the currency risk associated with a portion of our forecasted Euro-denominated sales of finished goods by one of our USD functional-currency subsidiaries. As of June 30, 2011, there were six monthly contracts outstanding at $1.2 million each, for an aggregate notional amount of $7.2 million.

As of June 30, 2011 and December 31, 2010, a portion of our long-term debt consisted of borrowings denominated in currencies other than the U.S. dollar. We designated our €81.5 million Euro-denominated notes as a hedge of our net investment in certain European subsidiaries. A cumulative foreign currency translation loss of $17.2 million pre-tax ($10.6 million after tax) on this debt was recorded within accumulated other comprehensive loss as of June 30, 2011. We have also designated our 1.0 billion Yen-denominated note payable as a hedge of our net investment in a Japanese affiliate. At June 30, 2011, there was a cumulative foreign currency translation loss on this Yen-denominated debt of $1.5 million pre-tax ($0.9 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. We entered into the following economic hedges that did not qualify for hedge accounting treatment since they did not meet the highly effective requirement at inception.

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In January 2011, we purchased a series of call options for a total of 77,900 barrels of crude oil, intended 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 May through November 2011. With these option contracts, we may benefit from a decline in crude oil prices, as there is no downward exposure other than the $0.5 million premium that we paid to purchase the contracts.

During the three and six month periods ended June 30, 2011, a loss of $0.2 million and a gain of $0.7 million, respectively, was recorded in cost of goods and services sold related to these outstanding call options. During the three and six month periods ended June 30, 2010, a loss of $0.2 million and $0.3 million, respectively, related to crude-oil options was recorded in cost of goods and services sold.

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, 2011 and December 31, 2010.

The following tables summarize the effects of derivative instruments designated as hedges on other comprehensive income ("OCI") and earnings:

	Amount of Gain (Loss) Recognized in OCI for Three Months Ended June 30,		Amount of Gain (Loss) Reclassified from Accumulated OCI into Income for Three Months Ended June 30,		Location of Gain (Loss) Reclassified from Accumulated OCI into Income
($ in millions)	2011	2010	2011	2010	
Cash Flow Hedges:					
Foreign currency hedge contracts	$ (0.2)	$ -	$ 0.2	$ -	Net sales
Foreign currency hedge contracts	0.2	0.1	-	-	Cost of goods and services sold
Interest rate swap contracts	0.1	0.3	(0.8)	(0.8)	Interest expense
Total	$ 0.1	$ 0.4	$ (0.6)	$ (0.8)	
Net Investment Hedges:					
Foreign currency-denominated debt	$ (1.6)	$ 9.3	$ -	$ -	Foreign exchange (gains) losses and other
Total	$ (1.6)	$ 9.3	$ -	$ -	

	Amount of Gain (Loss) Recognized in OCI for Six Months Ended June 30,		Amount of Gain (Loss) Reclassified from Accumulated OCI into Income for Six Months Ended June 30,		Location of Gain (Loss) Reclassified from Accumulated OCI into Income

($ in millions)	2011	2010	2011	2010	
Cash Flow Hedges:					
Foreign currency hedge contracts	$ (0.5)	$ -	$ 0.2	$ -	Net sales
Foreign currency hedge contracts	(0.6)	0.1	-	-	Cost of goods and services sold
Interest rate swap contracts	1.2	0.8	(1.6)	(1.6)	Interest expense
Total	$ 0.1	$ 0.9	$ (1.4)	$ (1.6)	
Net Investment Hedges:					
Foreign currency-denominated debt	$ (5.8)	$ 16.6	$ -	$ -	Foreign exchange (gains) losses and other
Total	$ (5.8)	$ 16.6	$ -	$ -	

For the three and six month periods ended June 30, 2011 and 2010, there was no 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 the assets and liabilities that are measured at fair value on a recurring basis in our balance sheets:

($ in millions)	Balance at June 30, 2011	Basis of Fair Value Measurements Level 1	Level 2	Level 3
Assets:				
Short-term investments	$ 15.4	$ 15.4	$ -	$ -
Deferred compensation assets	3.6	3.6	-	-
Commodity contracts	1.1	-	1.1	-
	$ 20.1	$ 19.0	$ 1.1	$ -
Liabilities:				
Contingent consideration	$ 1.7	$ -	$ -	$ 1.7
Deferred compensation liabilities	5.3	5.3	-	-
Foreign currency contracts	1.2	-	1.2	-
Interest rate swap contracts	6.8	-	6.8	-
	$ 15.0	$ 5.3	$ 8.0	$ 1.7

($ in millions)	Balance at December 31, 2010	Basis of Fair Value Measurements Level 1	Level 2	Level 3
Assets:				
Short-term investments	$ 0.6	$ 0.6	$ -	$ -
Deferred compensation assets	3.6	3.6	-	-
	$ 4.2	$ 4.2	$ -	$ -
Liabilities:				
Contingent consideration	$ 2.3	$ -	$ -	$ 2.3
Deferred compensation liabilities	5.4	5.4	-	-
Interest rate swap contracts	6.1	-	6.1	-
	$ 13.8	$ 5.4	$ 6.1	$ 2.3

Short-term investments, which are comprised of certificates of deposit and mutual funds, are included within other current assets and are valued using a market approach based on quoted market prices in an active market. Deferred compensation assets are included within other current assets and are also valued using a market approach based on quoted market prices in an active market. 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.

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Commodity contracts are included within other current assets and are valued using an income approach. The fair value of our foreign currency contracts was included within other current liabilities and was valued using an income approach based on quoted forward foreign exchange rates and spot rates at the reporting date. Interest rate swaps are included within other long-term liabilities and 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.

The fair value of the contingent consideration was determined using a probability-weighted income approach at the acquisition date and is revalued at each reporting date or more frequently if circumstances dictate. Changes in the fair value of these obligations are recorded as income or expense within restructuring and other items in our consolidated statements of income. The fair value measurement is based on significant inputs not observable in the market, which are referred to as Level 3 inputs.

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

	($ in millions)
Balance, December 31, 2010	$ 2.3
Increase in fair value recorded in earnings	0.1
Reduction in fair value recorded in earnings	(0.8)
Changes in foreign currency exchange rates	0.1
Balance, June 30, 2011	$ 1.7

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

Other Financial Instruments

Cash and cash equivalents, accounts receivable and short-term debt are held at carrying amounts that approximate fair value due to their near-term maturities. Quoted market prices are used to estimate the fair value of publicly traded long-term debt. Debt that is not quoted on an exchange is valued using a discounted cash flow method based on interest rates that are currently available to us for debt issuances with similar terms and maturities. At June 30, 2011, the estimated fair value of long-term debt was $361.4 million compared to a carrying amount of $367.2 million. At December 31, 2010, the estimated fair value of long-term debt was $344.2 million and the carrying amount was $358.1 million.

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, 2011	December 31, 2010
Finished goods	$ 71.9	$ 65.1
Work in process	23.6	21.4
Raw materials	65.7	60.5
	$ 161.2	$ 147.0

Note 7: Revolving Credit Facility

In June 2011, we entered into a credit agreement governing our new $50.0 million revolving credit facility. The proceeds of the loans will be used to finance the construction and acquisition of our new corporate office and research facility. We currently expect to acquire the new facility during the first quarter of 2013. On the date of acquisition, the revolving loan balance will be converted to a five-year term loan. Borrowings under the loans will bear interest at a variable rate equal to one-month LIBOR plus a margin of 1.50 percentage points. The credit agreement requires us to maintain a total leverage ratio no greater than 3.50 to 1.00 and an interest coverage ratio greater than or equal to 2.50 to 1.00.

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In connection with the new credit agreement, we incurred debt issuance costs of $0.3 million which are recorded in other noncurrent assets and are being amortized as additional interest expense over the term of the credit facility. As of June 30, 2011, we had no balance outstanding under this new credit facility.

Note 8: Net Income Per Share

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

	Three Months Ended June 30,		Six Months Ended June 30,	
($ in millions)	2011	2010	2011	2010
Net income, as reported, for basic net income per share	$ 20.1	$ 21.7	$ 39.7	$ 41.6
Plus: interest expense on convertible debt, net of tax	1.1	1.1	2.1	2.1
Net income for diluted net income per share	$ 21.2	$ 22.8	$ 41.8	