WEST PHARMACEUTICAL SERVICES INC
Form DEF 14A
March 24, 2005

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the Securities Exchange Act of 1934

Filed by the Registrant ý

Filed by a Party other than the Registrant ¨

Check the appropriate box:

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Preliminary Proxy Statement

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Definitive Proxy Statement

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Definitive Additional Materials

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Soliciting Material Pursuant to §240.14a-11(c) or §240.14a-12

West Pharmaceutical Services, Inc.

(Name of Registrant as specified in its charter)

(Name of Person(s) Filing Proxy Statement, if other than Registrant)

Payment of Filing Fee (Check the appropriate box):

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No fee required

..

Fee computed on table below per Exchange Act Rules 14a-6(i)(4) and 0-11.

(1)

Title of each class of securities to which transaction applies:

(2)

Aggregate number of securities to which transaction applies:

(3)

Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11:

(4)

Proposed maximum aggregate value of transaction:

(5)

Total fee paid:

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Fee paid previously with preliminary materials.

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Check box if any of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1)

Amount Previously Paid:

(2)

Form, Schedule or Registration Statement No.:

(3)

Filing Party:

(4)

Date Filed:

NOTICE OF 2005 ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD APRIL 26, 2005

Dear Shareholder,

The 2005 Annual Meeting of Shareholders of West Pharmaceutical Services, Inc. will be held at the Company s headquarters, 101 Gordon Drive, Lionville, Pennsylvania 19341, on Tuesday, April 26, 2005, at 9:30 AM, to consider and take action on the following:

1.

Election of three Class III directors: Tenley E. Albright, Donald E. Morel, Jr. and Robert C. Young, each for a term of three years; and

2.

Any other matters that properly come before the meeting.

Your Board of Directors recommends a vote FOR Proposal 1.

Only shareholders of record at the close of business on Friday, March 18, 2005, are entitled to notice of and to vote at the meeting or any postponement or adjournment of the meeting.

You can vote by proxy on the internet, or by dating, signing and returning the enclosed proxy in the enclosed envelope. It is important that your shares be represented and voted, whether or not you expect to attend the meeting in person.

By Order of the Board of Directors,

JOHN R. GAILEY III
Secretary

March 24, 2005

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WEST PHARMACEUTICAL SERVICES, INC.

101 Gordon Drive

Lionville, Pennsylvania 19341

2005 ANNUAL MEETING OF SHAREHOLDERS

Tuesday, April 26, 2005

PROXY STATEMENT

GENERAL INFORMATION ABOUT THE MEETING

Proxy Solicitation

We, the Board of Directors of West Pharmaceutical Services, Inc. (the Company), invite you to submit the enclosed proxy for use at the Company s 2005 Annual Meeting of Shareholders. The meeting will be held on Tuesday, April 26, 2005, at 9:30 AM, at the Company's headquarters, 101 Gordon Drive, Lionville, Pennsylvania 19341. These proxy materials are being mailed on or about March 24, 2005. The Company will pay the cost of soliciting proxies. Proxies may be solicited on our behalf by directors, officers or employees in person or by telephone, facsimile or other electronic means.

Purpose of the Meeting

At the Annual Meeting, shareholders will act on the matters outlined in the notice of meeting on the cover page of this proxy statement, including the election of directors. In addition, management will report on the performance of the Company and respond to questions from shareholders.

Shareholders Entitled to Vote

You may vote at the meeting only if you were a shareholder of record at the close of business on March 18, 2005. If you were a shareholder of record on that date, you will be entitled to vote all of the shares that you held on that date. Each outstanding share of the Company s common stock, par value $.25 per share, will be entitled to one vote on each matter considered at the meeting.

How to Vote

Shareholders of record may cast their votes by proxy by:

(1) using the internet and voting at the website listed on the enclosed proxy card; or

(2) signing, completing and returning the enclosed proxy card in the enclosed pre-addressed envelope.

The internet voting procedure is designed to authenticate votes cast by use of a personal identification number. The procedure allows shareholders to appoint a proxy and provide voting instructions and to confirm that their actions have been properly recorded. Specific instructions to be followed are set forth on the enclosed proxy card.

If you return your signed proxy card without indicating any voting instructions, the proxy holders will vote your shares according to our recommendations, which are to vote FOR the election of the directors named in the accompanying notice.

If you are a shareholder of record and attend the meeting, you may deliver your completed proxy card in person. If you have shares held in street name (that is, through a broker or other nominee) and you wish to vote those shares at the meeting, you will need to follow the procedures of the institution that holds those shares.

Revocation of Proxies

Even after you have submitted your proxy, you may revoke or change your vote at any time before the proxy is exercised by filing with the Company s Secretary either a notice of revocation or a duly executed proxy bearing a later date. You may also vote in person at the meeting, although attendance at the meeting will not by itself revoke a previously granted proxy.

Voting at the Meeting

A quorum is necessary to take action at the meeting. A quorum means that shareholders of record holding at least a majority of the outstanding shares of the Company s common stock are present, either in person or represented by proxy. As of the record date, 31,094,103 shares of common stock were outstanding. Proxies received but marked as abstentions and broker non-votes will be included in the calculation of the number of votes considered to be present at the meeting.

Required Vote

Directors will be elected by plurality vote. Other matters to be voted on at the meeting will be determined by a majority of the votes cast at the meeting. Votes withheld from director nominees, abstentions and broker non-votes (that is, shares held in street name that cannot be voted by a broker on specific matters without instructions from the beneficial owner) are not considered to be votes, and therefore will have no effect on the outcome of the vote.

Voting on Other Matters

If other matters are properly presented at the Annual Meeting for consideration, the persons named in the proxy will have the discretion to vote on those matters for you. At the date this proxy statement was printed, we did not know of any other matters to be raised at the Annual Meeting.

STOCK OWNERSHIP

The Company s Largest Shareholders

The following table contains information about persons who beneficially owned more than 5% of the issued and outstanding common stock as of December 31, 2004. Except as indicated below, the beneficial owners have sole voting and investment power over the shares shown opposite their names. This table was compiled from Securities and Exchange Commission (SEC) reports.

Name and Address of Beneficial Owner	Amount and Nature of Beneficial Ownership	Percent of Class
Franklin Advisory Services, LLC One Parker Plaza, Sixteenth Floor Fort Lee, NJ 07024	3,368,400 (1)	11.00%
Private Capital Management Bruce S. Sherman Gregg J. Powers 8889 Pelican Bay Blvd. Suite 500 Naples, FL 34108	3,280,790(2)	10.70%
Wilmington Trust Corporation 1100 North Market Street Wilmington, DE 19890	2,722,004(3)	8.90%

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(1) Based upon information set forth in a Schedule 13G/A filing made by Franklin Resources, Inc. (FRI), Charles B. Johnson, Rupert H. Johnson, Jr. and Franklin Advisory Services, LLC dated February 11, 2005. Represents shares beneficially owned by one or more open or closed-end investment companies or other managed accounts, which are advised by direct and indirect investment advisory subsidiaries of FRI. Charles B. Johnson and Rupert H. Johnson, Jr. are principal owners of FRI, and they, along with FRI and each of FRI s advisory subsidiaries, disclaim any economic interest or beneficial ownership in any of the shares covered by the Schedule. They disclaim the existence of a group.

(2) Based upon information set forth in a Schedule 13G/A filing made by Private Capital Management (PCM), Bruce S. Sherman and Gregg J. Powers dated February 14, 2005. The reporting persons share voting and investment power with respect to all of the shares owned. Mr. Sherman is Chief Executive Officer of PCM, and Mr. Powers is President of PCM. They disclaim beneficial ownership of shares held by PCM s clients and disclaim the existence of a group.

(3) Based on information set forth in a Schedule 13G/A filing made by Wilmington Trust Corporation (WTC) dated February 9, 2005. WTC, together with its affiliates Wilmington Trust Company and Wilmington Trust Federal Savings Bank, has (i) sole voting power with respect to 1,888,394 shares, (ii) shared voting power with respect to 0 shares, (iii) sole investment power with respect to 879,240 shares and (iv) shared investment power with respect to 824,610 shares.

Stock Ownership of Directors and Executive Officers

The following table shows amounts of Company common stock beneficially owned as of March 14, 2005 by our directors, the executive officers named in the Summary Compensation Table and all directors and executive officers as a group. The table includes shares held in participant accounts under various Company-maintained compensation and retirement plans and stock-equivalent units credited to directors accounts under the Non-Qualified Deferred Compensation Plan for Non-Employee Directors (the Director Deferred Compensation Plan). Shares underlying stock options are treated as beneficially owned by the individual and as outstanding when computing the percentages owned by the individual and group. All directors and officers as a group beneficially own less than 1% of the outstanding shares of common stock.

Name	Aggregate Number of Shares Beneficially Owned(1)	Options Exercisable Within 60 Days	Aggregate Number of Stock-Equivalent Units Beneficially Owned
Tenley E. Albright	37,827(2)	24,400	12,976
George W. Ebright	5,856	24,400	14,287
Steven A. Ellers	102,600	304,430	
William J. Federici	29,168	56,150	
Herbert L. Hugill	49,601	154,250	
L. Robert Johnson	15,000	24,400	16,979
Robert J. Keating	22,089	82,250	
William H. Longfield	5,000	24,400	40,000
Donald E. Morel, Jr.	150,127	641,326	
John P. Neafsey	18,859	9,400	47,675
Anthony Welters	600	24,400	10,660
Geoffrey F. Worden	7,524	24,400	28,014
Robert C. Young	3,000	8,400	7,771
Patrick J. Zenner		11,400	3,052
	622,380(1)	1,808,238	181,414

All directors and executive officers as a group

(20 persons)

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(1) With respect to executive officers, includes (i) shares held in participant accounts under the Company s Savings Plan, Non-Qualified Deferred Compensation Plan for Designated Officers (the Officer Deferred Compensation Plan) and 2003 Employee Stock Purchase Plan (the Stock Purchase Plan), and (ii) restricted shares awarded under various Company incentive compensation plans as follows:

	Savings Plan	Officer Deferred Compensation Plan	Stock Purchase Plan	Restricted Shares Awarded Under Various Plans
Donald E. Morel, Jr.	765	8,040	1,676	76,900
William J. Federici		6,378		19,253
Steven A. Ellers	2,770	13,554	3,532	42,460
Robert J. Keating			1,488	13,066
Herbert L. Hugill		5,476	3,532	13,650
All directors and officers as a group	11,381	46,766	17,294	225,962

(2) Includes 34,465 shares held by the Company s charitable foundation. Dr. Albright and Richard D. Luzzi, an executive officer of the Company, are trustees of the foundation and, in that capacity, are each deemed to be the beneficial owner of the shares held by the foundation because they share voting and dispositive power over those shares. Dr. Albright and Mr. Luzzi disclaim any economic interest in shares held by the foundation.

Section 16(a) Beneficial Ownership Reporting Compliance

Based on a review of filings with the SEC and written representations that no other reports were required, we believe that all of our directors and executive officers complied during 2004 with the reporting requirements of Section 16(a) of the Securities Exchange Act of 1934, with the exception of Robert S. Hargesheimer, who filed two different late reports relating to two different stock option exercises. Both of the late filings were due to an administrative error of the Company.

GOVERNANCE OF THE COMPANY

Information About the Board and its Committees

The Company is governed by a Board of Directors. The Board has established four standing committees: Audit; Compensation; Finance; and Nominating and Corporate Governance. The Board has adopted a written charter for each committee, copies of which are posted on the Company s website, *www.westpharma.com.* A printed copy of each committee s charter may also be obtained upon request from the Company s Secretary. The members of the Board of Directors and the committees of the Board on which they serve are identified below:

Director	Audit Committee	Compensation Committee	Finance Committee	Nominating and Corporate Governance Committee
Tenley E. Albright				*
George W. Ebright	*		*	
L. Robert Johnson		*	*	
William H. Longfield		*		**
Donald E. Morel, Jr.				
John P. Neafsey		*	**	
Anthony Welters		**		
Geoffrey F. Worden	**			*
Robert C. Young				*
Patrick J. Zenner	*		*	

* Member

** Chairman

Board Committee Functions

Set forth below is a summary of the functions of each committee of the Board.

Audit Committee. The functions of the Audit Committee are to assist the Board in its oversight of (1) the integrity of the Company s financial statements; (2) the independence and qualifications of the independent registered public accounting firm; (3) the performance of the Company s internal audit function and of the Company s independent registered public accounting firm; and (4) the compliance by the Company with legal and regulatory requirements. In carrying out these responsibilities, the Audit Committee, among other things:

Reviews and discusses the Company s annual and quarterly financial statements with management and the independent registered public accounting firm;

Manages the relationship between the Company and the independent registered public accounting firm, including: having sole authority for their appointment, retention and compensation; reviewing the scope of their work; approving non-audit and audit services; and confirming the independence of the independent registered public accounting firm; and

Oversees management s implementation and maintenance of disclosure controls and procedures and internal control over financial reporting.

The Board has determined that each member of the Audit Committee is independent within the meaning of SEC regulations, the listing standards of the New York Stock Exchange (NYSE) and the Company s *Corporate Governance Principles*. The Board has also determined that members of the Committee meet the financial literacy and expertise requirements of the NYSE and are each qualified as an audit committee financial expert within the meaning of SEC regulations. Mr. Zenner currently serves on the audit committees of three other public companies. The Board reviewed Mr. Zenner s obligations as a member of the other audit committees in accordance with NYSE rules and the Company s *Corporate Governance Principles*, and determined that his simultaneous service on those other audit committees does not impair his ability to effectively serve on the Company s Audit Committee. The Audit Committee met eleven times during 2004.

Compensation Committee. The Compensation Committee s responsibilities include monitoring the effectiveness of the Company s executive compensation programs in achieving the Board s compensation philosophy; reviewing and approving corporate goals and objectives relevant to the Chief Executive Officer s compensation and evaluating the Chief Executive Officer s performance against those goals and objectives; and, either as a committee or together with the other independent directors, determining and approving the Chief Executive Officer s compensation level based on this evaluation. The Committee also makes recommendations to us with respect to other executive compensation and incentive and equity-based compensation plans. In overseeing the administration of those plans, the Compensation Committee approves all grants and awards to executive officers, establishes performance goals and determines whether or not such goals have been attained. Each year, the Committee produces a report on executive compensation, which is contained in this proxy statement under the heading *Report of the Compensation Committee on Executive Compensation.* In carrying out its responsibilities, the Committee is authorized to engage, and has engaged, outside advisors to consult with it as the Committee deems appropriate.

Each member of the Compensation Committee is independent within the meaning of the NYSE listing standards and the Company s *Corporate Governance Principles.* The Compensation Committee met six times during 2004.

Nominating and Corporate Governance Committee. The Nominating and Corporate Governance Committee identifies qualified individuals to serve as board members; recommends nominees for director and officer positions; determines the appropriate size and composition of the Board and its committees; monitors a process to assess Board effectiveness; and considers matters of corporate governance, including developing and recommending to us a set of effective corporate governance principles applicable to the Company. After review by the independent directors, this Committee formally recommends to us a successor to the Chief Executive Officer.

Each member of the Nominating and Corporate Governance Committee is independent within the meaning of the NYSE listing standards and the Company s *Corporate Governance Principles.* The Nominating and Corporate Governance Committee met four times during 2004.

Finance Committee. The Finance Committee serves as our liaison with management on important financial transactions and financial-policy matters. This Committee consults with and advises management on financial strategies, policies and procedures, acquisitions, divestitures and capital-expenditure requests. This Committee also monitors the performance of the Company s savings and retirement plan investment committee. The Finance Committee met four times during 2004.

Board Meetings

The Board met eight times during 2004. The independent directors held seven executive sessions without management. Each director attended more than 75% of the total number of meetings of the Board and the committees on which he or she served. Under the Company s *Corporate Governance Principles*, each director is expected to attend the Annual Meeting of Shareholders unless prevented from doing so by illness or emergency. All directors attended the 2004 Annual Meeting of Shareholders.

Determination of Independence

We adopted our *Corporate Governance Principles* in October 2003. The Principles meet or exceed NYSE corporate governance listing requirements. The Principles can be found on the Company s website at *www.westpharma.com*. A printed copy may also be obtained upon request from the Company s Secretary.

We conducted our annual review of director independence at our March 5, 2005 board meeting, during which we considered transactions and relationships between each director or any member of his or her immediate family and the Company, its subsidiaries and affiliates and members of executive management and their affiliates. As a result of the review, we determined that all of the directors, with the exception of Dr. Morel, are independent of the Company and its management under the standards set forth in our *Corporate Governance Principles* and the NYSE listing standards.

The Chairman, Independent Directors

One independent director is designated as Chairman, Independent Directors. The Chairman, Independent Directors confers with the Chief Executive Officer on the Board s agenda items and information requirements. He also calls meetings of the independent directors and presides at executive sessions of the independent directors. Mr. Longfield is the current Chairman, Independent Directors.

Recommending Candidates for the Board of Directors

The Nominating and Governance Committee serves as our Nominating Committee. To identify new, non-management director candidates, the Nominating Committee considers individuals suggested or recommended from a variety of sources, including members of the Nominating Committee, other members of the Board, members of management, customers, suppliers, advisors to the Board and the Company s security holders. The Nominating Committee has not in the past employed a third-party search firm, but it reserves the right to do so should it deem it appropriate. All persons recommended for nomination to the Board, regardless of the source of the recommendation, are evaluated in the same manner by the Nominating Committee.

Any recommendations for director candidates should be submitted in writing to the Chairman of the Nominating Committee at the address listed below. The written recommendation must contain or be accompanied by the following information:

the name and address of the nominating shareholder as they appear on the Company's books;

the number and class of shares of the Company that are beneficially owned by the nominating shareholder;

as to each recommended nominee: (1) his or her name, age, business address and, if known, residence address, (2) his or her principal occupation or employment, (3) the number and class of the Company's securities beneficially owned by him or her, (4) information necessary to determine if such recommended nominee is an independent director as outlined in the Company s Bylaws and (5) any other information regarding the recommended nominee that is required to be included in a proxy statement filed with the SEC;

a description of all arrangements or understandings among the shareholder and each recommended nominee and any other persons pursuant to which the recommended nomination is to be made by the nominating shareholder;

the consent of each recommended nominee to serve as a director of the Company if so elected; and

reasons that the person recommended would be a desirable member of the Board.

We believe that diversity and a mix of backgrounds and expertise among members of the Board collectively enhances our ability to understand issues and challenges facing the Company. The particular background, experience or expertise required in this mix may vary from time to time.

Qualifications for Board membership are described in greater detail in our *Corporate Governance Principles,* which are posted on the Company s website at *www.westpharma.com*. At a minimum, the Nominating Committee requires candidates with high standards of integrity and independence of judgment who can devote sufficient time to their Board responsibilities and who are free of any conflict which, in the view of the Committee, would disqualify them from Board membership. The Nominating Committee also looks for candidates who have demonstrated significant achievement in areas such as business, academia, government or military service, public service or other professional endeavors. Other criteria include the ability to learn the Company s business and to master business concepts and issues.

Communicating with the Board

Shareholders can communicate with the Chairman, Independent Directors or the non-management directors as a group by sending a letter addressed as follows:

The Board of Directors
c/o John R. Gailey III
Vice President, General Counsel and Secretary
West Pharmaceutical Services, Inc.
101 Gordon Drive
Lionville, PA 19341

Communications to a particular director should be addressed to that director at the address shown above. The Vice President, General Counsel and Secretary maintains a log of all communications received by us through this process. Communications to specific directors are forwarded to those directors. All other communications to us are transmitted directly to the Chairman, Independent Directors who makes the determination as to whether these messages should, in turn, be forwarded to a particular Board committee or to management for further handling.

Code of Business Conduct

We have approved a *Code of Business Conduct*. Every employee, officer and director of the Company is responsible for complying with the Code. The full text of the Code can be found on the Company s website at *www.westpharma.com*. A printed copy of the Code may also be obtained upon request from the Company s Secretary. There have been no waivers of the Code.

Compensation of Directors

Each director who is not an employee of the Company or any of its subsidiaries receives an annual retainer of $20,000. The Chairman of the Audit Committee and the Chairman, Independent Directors each also receive an annual retainer of $5,000. The chairs of the other standing committees each receive an annual retainer of $3,500. Non-employee directors receive meeting fees of $1,500 for each board and independent director meeting and $1,000 for each committee meeting attended.

The Company maintains the Director Deferred Compensation Plan under which each non-employee director may defer some or all of his or her director s fees. Deferred fees are deposited each calendar quarter into either an interest-bearing account or into a stock-equivalents account. Amounts in the interest-bearing account earn interest at the prime rate in effect on the last day of each quarter. Amounts deposited into the stock-equivalents account are converted into common stock-equivalent units based on the fair market value of one share of the Company s common stock on the last day of the quarter. Upon termination of board service, the director receives a cash payment equal to the balance in the interest-bearing account and the value of the stock-equivalents account, which is determined by multiplying the number of stock-equivalents in the account by the fair market value of one share of the Company s common stock on the date of termination.

Each non-employee director also receives an annual grant of 1,000 stock-equivalent units under the 2004 Stock-Based Compensation Plan. These stock-equivalents are eligible for deferral and held in a separate account under the Director Deferred Compensation Plan. When dividends are paid on common stock, additional stock-equivalents are credited to each director s account as if those dividends were used to purchase additional shares.

In 2004, under the 2004 Stock-Based Compensation Plan, each non-employee director received a non-qualified stock option to purchase 3,200 shares of the Company s common stock. The option has an exercise price equal to the fair market value of the Company s common stock on the date of grant and vests one year from the date of grant. The option expires ten years from the date of grant.

AUDIT COMMITTEE REPORT

The following Audit Committee Report does not constitute soliciting material and should not be deemed filed or incorporated by reference into any other Company filing under the Securities Act of 1933 or the Securities Exchange Act of 1934, except to the extent the Company specifically incorporates this Report by reference therein.

Management has primary responsibility for the Company s financial-reporting process, principles and internal controls, as well as preparation of its consolidated financial statements. The Company s independent registered public accounting firm is responsible for auditing those financial statements and expressing an opinion as to their conformity with U.S. generally accepted accounting principles. The Committee is responsible for overseeing and monitoring the Company s accounting and auditing process on behalf of the Board.

As part of its oversight of the Company s financial statements, the Committee has reviewed and discussed with both management and the independent registered public accounting firm all annual and quarterly financial statements before their issuance. Management represented to the Committee that each set of financial statements reviewed had been prepared in accordance with U.S. generally accepted accounting principles, and reviewed significant accounting and disclosure issues with the Committee.

The Audit Committee has discussed with the independent registered public accounting firm the matters required to be discussed by *Statement on Auditing Standards No. 61 (Communications with Audit Committees)*, including among other things, the quality of the Company s accounting principles, the reasonableness of significant judgments and the clarity of disclosures in the financial statements. The Committee also discussed with the independent registered public accounting firm matters relating to their independence, including a review of audit and non-audit fees, and the independent registered public accounting firm provided to the Committee the written disclosures and letter required by *Independence Standards Board Standard No. 1 (Independence Discussions with Audit Committees).*

The Committee has discussed with the Company s internal auditors and the independent registered public accounting firm the overall scope and plans for their respective audits. The Committee meets with the internal auditors and the independent registered public accounting firm, with and without management present, to discuss the results of their examinations, the evaluations of the Company s internal controls, and the overall quality of the Company s financial reporting. In addition, the Committee reviews with management and the independent registered public accounting firm initiatives and programs designed to strengthen the effectiveness of the Company s internal and disclosure controls structure. In connection with its review of the Company s 2004 audited financial statements, the Committee also reviewed and discussed with management and the independent registered public accounting firm Management s Report on Internal Control Over Financial Reporting and the independent registered public accounting firm s attestation of that report prior to the filing of the Company s Annual Report on Form 10-K.

The Committee members are not employees of the Company and do not serve as accountants or auditors by profession or experts in the fields of accounting or auditing. Therefore, the Committee has relied, without independent verification, on management s representation that the financial statements have been prepared with integrity and objectivity and in conformity with generally accepted accounting principles and on the representations of the independent registered public accounting firm included in their report on the Company s financial statements.

Taking all of these reviews and discussions into account, and subject to the limitations on the role and responsibilities of the Committee, certain of which are referred to above, the Committee recommended that the Board approve the inclusion of the Company s audited financial statements in the Company s Annual Report on Form 10-K for the year ended December 31, 2004, for filing with the SEC.

Geoffrey F. Worden, Chairman
George W. Ebright
Patrick J. Zenner

REPORT OF THE COMPENSATION COMMITTEE ON EXECUTIVE COMPENSATION

The Compensation Committee of the Board of Directors is composed entirely of non-employee directors, each of whom is independent from management of the Company. The Committee reviews and approves the compensation programs for the Chief Executive Officer and other executive management, including the executive officers named in the Compensation Table on page 13, and approves their compensation. In the case of the Chief Executive Officer, the compensation determination made by the Committee is subject to review and approval by the other independent directors. The Committee also oversees the administration of the Company s incentive and equity-based compensation plans. The Committee has retained an independent compensation consultant to assist it in its decisions.

Overview

The Committee s philosophy is to develop executive compensation policies and practices that attract and retain the highest caliber executives and align management and shareholder interests, through increased management stock ownership.

To carry out this philosophy, it is the Committee s practice to offer executives a competitive, market-rate base salary, plus annual incentive bonus opportunities and long-term incentive awards under the Company s shareholder-approved incentive plan that will reward management for adding value to the business and contribute to the achievement of superior corporate performance.

It is the intention of the Compensation Committee to provide incentives to achieve the Company s near-term and long-term financial-performance objectives. Achievement of near-term objectives is rewarded through base salary and annual performance targets, and long-term equity-based awards are intended to focus management on the Company s long-range goals. In addition, long-term incentive programs are designed to provide management with the opportunity to create wealth by participating in the consistent improvement of shareholder value. Both near-term and long-term goals are tied to key financial performance measures, including earnings growth, cash flow targets, return on invested capital and, at the division level, net sales and operating profit goals.

Prior to 2004, stock options were the primary vehicle for long-term incentive awards. In 2004, the long-term incentive program was re-designed to include performance-vested restricted stock, as well as stock options. These changes reflect the Committee s position that long-term incentive compensation serves three purposes: align management and shareholder interests (through stock options that only have value if the market price of the stock rises); promote achievement of long-term performance goals (through performance-based restricted stock); and encourage executive retention (through time-vested stock options and restricted stock).

Each year, the Committee benchmarks the Company s executive compensation by comparing the compensation of the Company s senior management with competitive market compensation data. The benchmarking exercise is undertaken with the assistance of the Committee s compensation consultant, which is engaged by, and reports directly to, the Compensation Committee. The market compensation data is compiled by the consultant from its own proprietary compensation surveys and databases, size-adjusted by the consultant to reflect the Company s approximate revenue.

The major components of compensation are base salary, annual incentive bonuses, which are paid in a combination of cash, restricted and unrestricted shares of the Company s common stock, and long-term equity-based incentive awards. Total direct compensation (base salary, annual incentive bonus opportunity and long-term incentive opportunity) are targeted at the 50th percentile of comparable positions as benchmarked against the market data mentioned above, although compensation components may vary from this mid-point based on length of service, experience levels and performance evaluations.

Elements of Executive Compensation

Base Salary

The Committee annually reviews and determines the base salaries of the Chief Executive Officer and other members of senior management, with its determination of the salary of the Chief Executive Officer being subject to approval by the full Board. In each case, the Committee takes into account market data, the executive s performance review, experience levels and the relationship of base salary to total direct compensation.

Annual Incentive Compensation

The purpose of annual incentives is to provide a significant portion of at-risk compensation that is tied to the Company s overall annual financial performance, as well as performance of the division or regional business unit. For 2004, 65% of the bonus opportunity at the corporate level was based on an earnings-per-share (EPS) target, with 35% of the opportunity based on a corporate cash flow performance target. At the division level, 25% of the bonus opportunity was based on EPS, with 75% of the payouts based on achievement of division-level financial performance targets.

Each participant s target bonus opportunity is measured as a percentage of base salary. For senior management other than the Chief Executive Officer this percentage ranges from 40% to 60%. The Chief Executive Officer s target bonus opportunity is 75% of his base salary. A full payout is made if the performance goals are met, with higher payouts for exceeding goals and lower payouts for falling short of targets as follows:

Consolidated EPS (65% of Target Bonus Opportunity)		Cash Flow (35% of Target Bonus Opportunity)	
% of Performance Achieved	% of Target Bonus Opportunity Payout	% of Performance Achieved	% of Target Bonus Opportunity Payout
Below 85%	No Payout	Below 85%	No Payout
85	50	85	50
95	83.3	92.5	75
100	100	100	100
105	116.7	115	115
110	133.3	125	125
Maximum 115%	150%	Maximum 150%	150%

At least 25% of the net, after-tax amount of senior executives bonuses is paid in shares of common stock (bonus shares), although executives may elect to have a higher percentage paid in stock. In addition, each executive receives an additional 25% of the number of bonus shares in the form of restricted stock (incentive shares), which vest over a four-year period, so long as the executive retains the original bonus shares. The balance of bonuses is paid in cash.

For 2004, the Company achieved 95.7% of its EPS target and 109% of its cash flow target for a combined payout of 93.9% of the target bonus opportunity at the corporate level.

Long-Term Incentive Compensation

Long-term incentive awards are divided evenly between stock options and performance-vested restricted stock, with the total incentive opportunity set to approximate the 50^{th} percentile of comparable compensation based on executive compensation data developed by the Committee s independent compensation consultant. For purposes of determining the size of the long-term awards, the Black-Scholes method is used to determine the number of stock option shares and the number of performance-vested restricted shares is determined by reference to the fair market value of the stock on the date of grant. Stock options vest in equal installments over a four-year period, while vesting of performance-vested restricted share awards is contingent on achievement of the performance criteria established for each of the following long-term measures: compound annual revenue growth and average return on invested capital. The performance criteria are generally based upon the Company s Board approved three-year business plan and goals. The percentage of performance shares that vests in each year varies according to the achievement of the goals in each of the plan years. No vesting occurs if the actual performance of the Company falls below 70% of the targeted performance.

Deferred Compensation Plan

U.S.-based executives may defer up to 100% of their salary and bonus, whether cash or stock, under the Company s Non-Qualified Deferred Compensation Plan for Designated Officers (the Officer Deferred Compensation Plan). The Company contributes to the plan an amount equal to 50% of the first 6% of base salary that an eligible participant defers. Any cash compensation deferred by participants under the plan may be invested in an array of investment funds, while Company contributions, and any stock bonus deferred by the participant, are invested in shares of the Company s common stock. Company matching contributions vest over a five-year period. All distributions are payable at the time of employment termination.

Compensation of the Chief Executive Officer

In April 2004, Dr. Morel s annual base salary was set at $525,013, an increase of 5% from his prior base salary of $500,000. The increase reflects primarily his performance, although the Committee also reviewed competitive compensation data prepared by its consultant.

Dr. Morel received an annual incentive bonus of $369,563 for 2004, representing 93.9% of his target bonus opportunity, or 70.4% of his base salary. Dr. Morel s bonus was paid in the form of $277,173 in cash and the award of 3,613 bonus shares. He also received an award of 904 incentive (restricted) shares that vest over a four-year period.

During 2004, the Committee also approved a long-term incentive award to Dr. Morel consisting of an option grant of 68,000 shares and an award of 54,000 performance-vested restricted shares. The size of the award was set to approximate the 50th percentile based on comparable compensation data. Following these grants, the Board declared a two-for-one stock split in the form of a 100% stock dividend, and an adjustment was made to all option grants and stock awards to reflect the stock split. Of the total grant of performance-vested restricted shares, 31,748 became vested, which represents achievement of 100% of the 2004 revenue growth target and 85.9% of the return-on-invested-capital target.

Additional Information

Stock Ownership Goals. To further align management and shareholder interests, the Committee has developed share-ownership goals for senior management. These goals call for executive officers to own common stock with a market value equal to specified multiples of the executive s base salary, ranging from 200% of base salary for senior executives to 500% of base salary for the Chief Executive Officer. The Committee would like executives to reach their goal within five to seven years of attaining their position and annually reviews each executive s progress.

Deductible Compensation Under the Tax Laws. Under section 162(m) of the Internal Revenue Code, a publicly held corporation such as the Company is denied a federal tax deduction for compensation in excess of $1,000,000, which is paid to its chief executive officer and its four most-highly compensated executive officers other than the chief executive officer. Qualified performance-based compensation and certain other compensation are not subject to the deduction limitation.

The Board of Directors has taken action to ensure that awards of stock options, bonus and incentive shares under the Company s incentive plans will be treated as qualified performance-based compensation and, therefore, remain tax deductible by the Company. While there is no firm policy on whether to permit executive compensation to exceed the $1,000,000 limit, the Committee periodically monitors the compensation of Company executives and believes that no tax deductions for executive compensation will be lost in the near future.