

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

FORM 10-K

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

For the fiscal year ended December 31, 1997

Commission File Number 1-8036

THE WEST COMPANY, INCORPORATED

(Exact name of registrant as specified in its charter)

Pennsylvania

23-1210010

(State or other jurisdiction of  
incorporation or organization)

(I.R.S. Employer  
Identification Number)

101 Gordon Drive, PO Box 645, Lionville, PA

19341-0645

(Address of principal executive offices)

(Zip Code)

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

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

| Title of each class                        | Name of each exchange on which registered |
|--|---|
| Common Stock, par value<br>\$.25 per share | New York Stock Exchange                   |

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

None  
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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 .

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

As of March 16, 1998, the Registrant had 16,844,735 shares of its Common Stock outstanding. The market value of Common Stock held by non-affiliates of the Registrant as of that date was \$514,817,213.

Exhibit Index appears on pages F-1, F-2, F-3, and F-4.

DOCUMENTS INCORPORATED BY REFERENCE

Documents incorporated by reference: 1) portions of the Registrant's Annual Report to Shareholders for the Company's 1997 fiscal year (the "1997 Annual Report to Shareholders") are incorporated by reference in Parts I and II; and (2) portions of the Registrant's definitive Proxy Statement (the "Proxy Statement") are incorporated by reference in Part III.

PART I

Item 1. Business

The Company

The West Company, Incorporated is one of the world's premiere suppliers of products and services for packaging and delivery of healthcare and consumer products. Over 85% of the Company's revenue is generated by the healthcare markets, mainly from sales to large, multinational pharmaceutical and medical device companies. The Company also provides contract packaging and contract manufacturing services for the pharmaceutical and consumer products markets in the United States and Puerto Rico. As of December 31, 1997, the Company and its subsidiaries had 4,800 employees.

The Company, a Pennsylvania business corporation, was founded in 1923. The executive offices of the Company are located at 101 Gordon Drive, PO Box 645, Lionville, Pennsylvania 19341-0645, approximately 35 miles from Philadelphia. The telephone number at the Company's executive offices is 610-594-2900. As used in this Item, the term "Company" includes The West Company, Incorporated and its consolidated subsidiaries, unless the context otherwise indicates.

Principal Products  
Pharmaceutical Industry  
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#### Pharmaceutical Stoppers

The Company is the world's largest independent manufacturer of stoppers for sealing drug vials and other pharmaceutical containers. Several hundred proprietary formulations are molded from natural rubber and synthetic elastomers into a variety of stopper sizes, shapes and colors. The stoppers are used in packaging serums, vaccines, antibiotics, anesthetics, intravenous solutions and other drugs.

Most stopper formulations are specially designed to be compatible with drugs so that the drugs will remain effective and unchanged during storage. New rubber compounds must be tested to show that they do not leach into the customer's product or affect its potency, sterility, effectiveness, color or clarity. The Company's laboratories conduct tests to determine the compatibility of its stoppers with customers' drugs and, in the United States, file formulation information with the Food and Drug Administration in support of customers' new drug applications.

Stoppers usually are washed, sterilized and subject to other pre-use processes by the customer or a third-party before they are fitted on the container. However, the Company has recently introduced a value-added line of stoppers that are pre-washed and ready to be sterilized, eliminating several steps in customers' incoming processes. The Company is also marketing a line of pre-sterilized stoppers that can be introduced directly into customers' sterile drug-filling operations.

#### Metal Seals

The Company also offers a broad line of aluminum seals in various sizes, shapes and colors. The seals are crimped onto glass or plastic pharmaceutical containers to hold the stoppers securely in place. The top of aluminum seals often contain tamper-evident tabs or plastic covers, which must be removed before the drug can be withdrawn.

Some aluminum seals are sold with specially formulated rubber or elastomeric discs pre-fitted inside the seal. These "lined" seals may be placed directly onto the pharmaceutical container, thus eliminating the need for a separate stopper.

#### Other Products

Other products for the pharmaceutical industry include:

- o Products used in the packaging of non-injectable drugs such as rubber dropper bulbs, plastic contraceptive drug packages and child-resistant and tamper-evident plastic closures
- o Plastic bottles and containers for the pharmaceutical industry

- o Rubber and plastic components for empty and pre-filled disposable syringes such as plungers, hubs and needle covers
- o Blood-sampling system components, including vacuum tube stoppers and needle valves, and a number of specialized rubber and plastic components for blood-analyzing systems and other medical devices
- o Disposable infant nursers and individual nurser components

#### Research and Development

The Company maintains its own laboratories for testing raw materials and finished goods to assure conformity to customer specifications and to safeguard product quality. Laboratory facilities are also used for research and development of new materials and products. Engineering staffs are responsible for product and tooling design and testing and for the design and construction of processing equipment. In addition, a corporate product research department develops new packaging and device concepts. Approximately 111 professional employees were engaged full time in these activities in 1997. Including drug delivery development expenses (discussed later in this report), research, development and engineering expenditures for the creation and application of new and improved products and processes were approximately \$12.0 million in 1997, \$11.2 million in 1996 and \$12.0 million in 1995, net of cost reimbursements by customers.

#### Recent Developments

The Company has taken steps to expand its product offerings and improve competitiveness in its core pharmaceutical packaging business.

In 1994, the Company acquired 100% ownership of certain European subsidiaries through the buyout of their minority shareholders. This acquisition allowed management to gain better control over its operations and more fully integrate European operations.

The Company increased its capacity in the components area with the acquisition of Schubert Seals A/S, a Danish manufacturer of rubber components and metal seals servicing the European pharmaceutical industry. A 51% ownership interest was acquired in May 1994 and the remaining 49% in December 1995. The company's name was changed in 1996 to "The West Company Danmark A/S."

The Company also entered into the pharmaceutical services market in 1995 with its acquisition of Paco Pharmaceutical Services, Inc. ("Paco") for \$52.4 million. Paco's business is described below under the caption "Principal Services -- Contract Manufacturing and Contract Packaging."

In 1996 and 1997, the Company implemented a major restructuring plan announced in 1996. The plan included the closing or downsizing of six manufacturing facilities, withdrawal from the machinery business and an approximate 5% reduction in the workforce. The restructuring was designed to reduce the cost associated with multiple plant sites and shift certain production capacity to lower-cost locations. (Additional information pertaining to these activities is incorporated by reference to the Note "Restructuring Charge" of Notes to Consolidated Financial Statements of the 1997 Annual Report to Shareholders.)

Principal Products  
Consumer Products Industries

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The Company manufactures a wide range of standard and custom-designed plastic threaded caps and containers for the personal-care industry. The caps, produced mainly for cosmetics and toiletries, come in many different sizes and colors. The Company also makes closures for food and beverage processors. The Company focuses its efforts on multiple-piece closures that require high-speed assembly.

Principal Services  
Contract Packaging and Contract Manufacturing

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Paco is a contract manufacturer and packager of products for pharmaceutical and consumer-products companies. With its flexible manufacturing environment and workforce, Paco has the capability to quickly gear up to make and package products according to customers' specifications, usually employing customer-supplied raw materials. Once the operation is complete, Paco delivers the finished product to the customer for final sale and distribution to the end user.

Customers typically use Paco's services on a temporary basis to supplement their own manufacturing or packaging capability during a new-product introduction or special promotion. However, Paco does retain long-term business in both the manufacturing and packaging areas. Paco operates facilities in Lakewood, New Jersey and Canovanas, Puerto Rico.

Paco's contract packaging and manufacturing processes and services are subject to the Good Manufacturing Practice standards applicable to the pharmaceutical industry as well as to numerous other federal and state laws and regulations governing the manufacture, handling and packaging of drugs and other regulated substances.

Paco manufactures liquids and creams, solids, suspensions, and powders. These products produced include

- o headache and cold medications
- o skin lotions

- o deodorants
- o toothpaste and mouthwash
- o metaproterenol and albuterol, products used for inhalation therapy.

Paco's contract-packaging services include the design, assembly and filling of a broad variety of packages, including

- o "blister" packages (i.e., a plastic film with a foil backing)
- o bottles and tubes
- o laminated and other flexible pouches or strip packages
- o aluminum and plastic liquid cup containers
- o paperboard specialty packages
- o innovative tamper-evident and child-resistant packages

Although the type of package depends on the requirements of the customer, blister packaging or bottles typically are used for tablets and capsules while aluminum or plastic cups, pouches, bottles and tubes are used for liquids, creams, ointments and powder.

Principal Services  
Development of Novel Drug Delivery Systems

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In 1993, the Company began developing drug-delivery systems for bio-pharmaceuticals and other drugs that are difficult to administer effectively through traditional injectable or oral routes. Improving the therapeutic performance of these drugs in an economical fashion calls for sophisticated delivery solutions.

To advance the Company's efforts in this area, the Company has acquired 30% of DanBioSyst UK Ltd. (DBS), and is considering further investments. DBS is a research company located in Nottingham, England, which specializes in contract research utilizing their patented delivery systems for such drugs. In partnership with biopharmaceutical and other drug companies, DBS works to apply its delivery system technology to improve the performance of hard-to-deliver drugs or to assist in delivering these drugs to a specific site in the body.

The Company's internal group dedicated to drug delivery systems is focused on the Ocufit SR system, a silicone rod small enough to fit behind the eyelid. The Ocufit can be designed to release a number of different drugs in predefined quantities over time periods ranging from two weeks to several months without physical intervention. The Ocufit SR is being jointly developed with Escalon Medical Corporation, which owns the basic technology. The Company is also developing other products based on DBS patented technology. The Company had 31 employees directly engaged in these activities as of December 31, 1997.

#### Order Backlog

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Product orders on hand at December 31, 1997 were approximately \$88 million, compared with approximately \$94 million at the end of 1996. Orders on hand include those placed by customers for manufacture over a period of time according to a customer's schedule or upon confirmation by the customer. Orders are generally considered firm when goods are manufactured or orders are confirmed. The Company also has contractual arrangements with a number of its customers, and products covered by these contracts are included in the Company's backlog only as orders are received from those customers.

Paco's twelve-month backlog of unfilled customer orders was approximately \$18 million at December 31, 1997 compared with \$24 million at December 31, 1996. Backlog is defined at Paco as orders written and included in production schedules during the next 12 months. Such orders generally may be cancelled by the customer without penalty.

#### Raw Materials

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The Company uses three basic raw materials in the manufacture of its products: rubber; aluminum; and plastic. The Company has been receiving adequate supplies of raw materials to meet its production needs, and it foresees no significant availability problems in the near future.

The Company is pursuing a supply chain management strategy, which involves purchasing from integrated suppliers that control their own sources of supply. This strategy has reduced the number of raw-materials suppliers used by the Company. In some cases, the Company will purchase raw materials from a single source to assure quality and reduce costs. This strategy increases the risks that the Company's supply lines may be interrupted in the event of a supplier production problem. These risks are managed by selecting suppliers with multiple manufacturing sites, rigid-quality control systems, surplus inventory levels and other methods of maintaining supply in the face of interrupted production.

#### Patents and Licenses

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The Company's patents and trademarks have been useful in establishing the Company's market share and in the growth of the Company's business and may continue to be of value in the future, especially in view of the Company's continuing development of its own proprietary products. Nevertheless, the Company does not consider its current business or its earnings to be materially dependent upon any single patent or trademark.

Although not material at this time, the Company believes its investment in DBS and in its own novel drug delivery development capabilities will play an increasingly important role in the future. DBS has a growing portfolio of patented technology, which is critical to its success because a significant amount of its future income will derive from licensing this technology to its customers.

#### Major Customers

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The Company serves major pharmaceutical and hospital supply/medical device companies, many of which have several divisions with separate purchasing responsibilities. The Company also provides contract-packaging and contract-manufacturing services for many of the leading manufacturers of personal-care products. The Company distributes its products primarily through its own sales force but also uses regional distributors in the United States and Asia/Pacific.

Becton Dickinson and Company ("B-D") accounted for approximately 11% of the Company's 1997 consolidated net sales. The principal products sold to B-D are rubber, metal and plastic components used in B-D's disposable syringes and blood sampling and analysis devices. The Company expects to continue as a major B-D supplier.

Excluding B-D, the next ten largest customers accounted for approximately 26% of the Company's consolidated net sales in 1997, but no one of these customers accounted for more than 6% of 1997 consolidated net sales.

#### Competition

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The Company competes with several companies, some of which are larger than the Company, across its major pharmaceutical packaging product lines. In addition, many companies worldwide compete with the Company for business related to specific product lines. However, the Company believes that it supplies a major portion of the U.S. market requirements for pharmaceutical rubber and metal packaging components and has a significant share of the European market for these components.

Because of the special nature of these products, competition is based primarily on product design and performance, although total cost is becoming increasingly more important as pharmaceutical companies initiate aggressive cost-control measures across their entire operations. Competitors often compete on the basis of price. The Company differentiates itself from its competition as a "full-service" supplier, which is able to provide pre-sale compatibility studies and other services and sophisticated post-sale technical support on a global basis.

The Company competes against numerous competitors in the field of plastic closures for consumer products, many of which are larger than the Company and command dominant market shares. The Company attempts to differentiate itself through its expertise in high-speed assembly of multiple-piece closures.

The U.S. contract-packaging and -manufacturing service industry is highly competitive. For packaging services, Paco competes with three significant companies, only two of which are larger than Paco. For contract-manufacturing services, Paco competes with four major competitors and several smaller regional companies; several of these competitors are larger than Paco. In addition, most domestic pharmaceutical companies maintain in-house manufacturing and packaging capabilities and at times will offer their excess capacity to manufacture or package other companies' products on a contract basis. However, most large pharmaceutical and personal healthcare companies have traditionally made extensive use of contract packagers and manufacturers during times of peak demand, during the introduction of a new product and for production of samples and special product promotions.

## Environmental Regulations

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The Company does not believe that it will have any material expenditures relating to environmental matters other than those discussed in the Note "Commitments and Contingencies" of Notes to Consolidated Financial Statements of the 1997 Annual Report to Shareholders, incorporated by reference herein.

## International

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The Note "Affiliated Companies" and the Note "Industry Segment and Operations by Geographic Area" of Notes to Consolidated Financial Statements of the 1997 Annual Report to Shareholders are incorporated herein by reference.

The Company believes that its international business does not involve a substantially greater business risk than its domestic business. Current financial crises in the Asia/Pacific region have resulted in a decline in demand for the Company's products in this region, however, direct sales to customers in these markets have historically not been significant representing approximately 5% of consolidated sales.

The Company's financial condition and results are impacted by fluctuations in exchange-rate markets (See Notes "Summary of Significant Accounting Policies Foreign Currency Translation" and "Other Income (Expense)" of Notes to Consolidated Financial Statements of the 1997 Annual Report to Shareholders, incorporated herein by reference). Hedging by the Company of these exposures is discussed in the Note "Debt" and in the Note "Fair Value of Financial Instruments" of Notes to Consolidated Financial Statements of the 1997 Annual Report to Shareholders, incorporated herein by reference.

## Item 2. Properties

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The Company maintains ten manufacturing plants and two mold and die production facilities in the United States, two manufacturing plants in Puerto Rico, and a total of seven manufacturing plants and one mold and die production facility in Germany, England, France, Denmark, Brazil and Singapore.

The Company's executive offices, U.S. research and development center and pilot plant are located in a leased facility at Lionville, Pennsylvania, about 35 miles from Philadelphia. All other Company facilities are used for manufacturing and distribution, and facilities in Eschweiler, Germany are also used for research and development activities.

The manufacturing facilities of the Company are well-maintained, are operating generally on a two-or three-shift basis and are adequate for the Company's present needs.

The principal facilities in the United States and Puerto Rico are as follows:

- - Approximately 839,000 square feet of owned and 997,000 square feet of leased space in Pennsylvania, New Jersey, Florida, Nebraska, North Carolina and Puerto Rico.

The principal international facilities are as follows:

- - Approximately 530,000 square feet of owned space and 15,000 square feet of leased space in Germany, England, Denmark and France.
- - Approximately 69,000 square feet of owned space in Brazil.
- - Approximately 92,000 square feet of owned space in Singapore.

Of the aforementioned currently owned facilities, approximately 354,000 square feet are subject to mortgages to secure the Company's real estate mortgage notes. See the Note "Debt" of Notes to Consolidated Financial Statements of the 1997 Annual Report to Shareholders, which information is incorporated herein by reference.

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

The Company also holds for sale former manufacturing facility space in Puerto Rico - totaling 42,000 square feet; and in Germany totaling 4,000 square feet.

Item 3. Legal Proceedings.  
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On February 21, 1992, R. P. Scherer ("Scherer"), the former parent company of Paco Pharmaceutical Services, Inc. ("Paco") agreed to sell Paco and its subsidiaries to OCAP Acquisition corp. ("OCAP"). After Scherer terminated the sale contract in March of that year, OCAP sued Scherer and Paco, alleging breach of contract and breach of the implied covenant of good faith. Scherer brought counterclaims against OCAP of a similar nature. Following a trial in March 1996, the court dismissed all of OCAP's claims and all of Scherer's counterclaims. Both plaintiffs and defendants appealed. On October 16, 1997 defendants won their appeal. The plaintiffs did not file a motion for permission to appeal to the New York Court of Appeals, and this litigation has ended.

Item 4. Submission of Matters to a Vote of Security Holders  
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None.

Item 4 (a) Executive Officers of the Registrant  
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The executive officers of the Company at March 31, 1998 were as follows:

| Name<br>-----         | Age<br>--- | Business Experience During Past Five Years<br>-----  |
|-----------------------|------------|--|
| George R. Bennyhoff 1 | 54         | Senior Vice President, Human Resources and Public Affairs.   |
| Jerry E. Dorsey 1     | 53         | Executive Vice President and Chief Operating Officer since June 1994; previously Group President from August 1993 to June 1994; President, Health Care Division from May 1992 to July 1993 for the Company.  |
| Steven A. Ellers 1    | 47         | Senior Vice President, Finance and Administration since March 1998; previously Group President from August 1997 to February 1998; Corporate Vice President, Sales from April 1996 to July 1997; Vice President, Operations from June 1994 to March 1996; Vice President Asia/Pacific and Managing Director, Singapore for the Company from May 1990 to May 1994. |
| John R. Gailey III 1  | 43         | Vice President since December 1995, General Counsel since May 1994 and Secretary since December 1991; previously Corporate Counsel for the Company from December 1991 to May 1994.   |
| Stephen M. Heumann 1  | 56         | Vice President since May 1994 and Treasurer.   |
| Lawrence P. Higgins   | 58         | Corporate Vice President, Operations since May 1996 and prior to joining the Company an international business consultant from 1994 to 1996 and Senior Vice President International Operations for Revlon, Inc., a cosmetics company, from 1992 to 1994.   |

1 Holds position as corporate officer elected by the Board of Directors for one year term.

| Name<br>- - - - -      | Age<br>- - - | Business Experience During Past Five Years<br>-----  |
|------------------------|--------------|--|
| William G. Little 1    | 55           | Chairman of the Board since May 1995 and Director, President and Chief Executive Officer for the Company.  |
| Donald E. Morel, Jr. 1 | 40           | Group President since March 1998; previously, Corporate Vice President, Scientific Services from May 1995 to February 1998; Vice President, Research & Development from August 1993 to May 1995 and prior thereto Director Research & Development, Health Care Products Division from May 1993 to August 1993 for the Company. |
| Anna Mae Pappo 1       | 54           | Vice President and Corporate Controller  |

1 Holds position as corporate officer elected by the Board of Directors for one year term.

PART II

Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

The Company's common stock is listed on the New York Stock Exchange and the high and low prices for the stock for each calendar quarter in 1997 and 1996 were as follows:

|      | First Quarter |        | Second Quarter |        | Third Quarter |        | Fourth Quarter |        | Year    |        |
|------|---------------|--------|----------------|--------|---------------|--------|----------------|--------|---------|--------|
|      | High          | Low    | High           | Low    | High          | Low    | High           | Low    | High    | Low    |
| 1997 | 29 1/4        | 27     | 30             | 27 1/8 | 34 3/16       | 28 1/2 | 35 1/16        | 28 7/8 | 35 1/16 | 27     |
| 1996 | 24 7/8        | 22 1/8 | 30             | 22 1/4 | 29 1/4        | 23 1/2 | 29 1/4         | 25 7/8 | 30      | 22 1/8 |

As of December 31, 1997, the Company had 1098 shareholders of record. There were also 2,900 holders of shares registered in nominee names. The Company's Common Stock paid a quarterly dividend of \$.13 per share in each of the first three quarters of 1996; \$.14 per share in the fourth quarter of 1996 and each of the first three quarters of 1997; and \$.15 per share in the fourth quarter of 1997.

Item 6. Selected Financial Data.

Information with respect to the Company's net sales, income (loss) from consolidated operations, income (loss) before change in accounting method, income (loss) before change in accounting method per share (basic and assuming dilution) and dividends paid per share is incorporated by reference to the line items corresponding to those categories under the heading "Ten-Year Summary Summary of Operations" of the 1997 Annual Report to Shareholders. Information with respect to total assets and total debt is incorporated by reference to the line items corresponding to those categories under the heading "Ten-Year Summary - Year End Financial Position" of the 1997 Annual Report to Shareholders.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The information called for by this Item is incorporated by reference to the text appearing in the "Financial Review" section of the 1997 Annual Report to Shareholders.

Item 7A. Quantitative and Qualitative Disclosure about Market Risk

The information called for by this Item is incorporated by reference to the Note "Financial Instruments" "Summary of Significant Accounting Policies" the Consolidated Financial Statements in the 1997 Annual Report to Shareholders.

Item 8. Financial Statements and Supplementary Data.

The information called for by this Item is incorporated by reference to "Consolidated Financial Statements", "Notes to the Consolidated Financial Statements", and "Quarterly Operating and Per Share Data (Unaudited)" of the 1997 Annual Report to Shareholders.

Item 9. Changes in and Disagreements With Accountants on Accounting and Financial Disclosure.

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

Information called for by this Item is incorporated by reference to "PROPOSAL #1 ELECTION OF DIRECTORS"; "OWNERSHIP OF COMPANY STOCK"; and "Section 16(a) Beneficial Ownership Reporting Compliance" in the Proxy Statement.

Information about executive officers of the Company is set forth in Item 4 (a) of this report.

Item 11. Executive Compensation.

Information called for by this Item is incorporated by reference to "PROPOSAL #1 ELECTION OF DIRECTORS" Compensation of Directors; BOARD COMPENSATION COMMITTEE REPORT ON EXECUTIVE COMPENSATION; COMPENSATION OF NAMED EXECUTIVE OFFICERS" contained in the Proxy Statement.

Item 12. Security Ownership of Certain Beneficial Owners and Management.

Information called for by this Item is incorporated by reference to "OWNERSHIP OF COMPANY STOCK" contained in the Proxy Statement.

Item 13. Certain Relationships and Related Transactions.

None

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.  
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- (a) 1. The following report and consolidated financial statements, included in the 1997 Annual Report to Shareholders, have been incorporated herein by reference:

Consolidated Statements of Income for the years ended December 31, 1997, 1996 and 1995

Consolidated Balance Sheets at December 31, 1997 and 1996

Consolidated Statements of Shareholders' Equity for the years ended December 31, 1997, 1996 and 1995

Consolidated Statements of Cash Flows for the years ended December 31, 1997, 1996 and 1995

Notes to Consolidated Financial Statements

Report of Independent Accountants

- (a) 2. Supplementary Financial Information

Schedules are omitted because they are either not applicable, not required or because the information required is contained in the consolidated financial statements or notes thereto.

- (a) 3. See Index to Exhibits on pages F-1, F-2, F-3 and F-4 of this Report.

- (b) There were no reports on Form 8-K filed by the Company in the fourth quarter of 1997.

- (c) The exhibits are listed in the Index to Exhibits on pages F-1, F-2, F-3 and F-4 of this Report.

- (d) Financial Statements of affiliates are omitted because they do not meet the tests of a significant subsidiary at the 20% level.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, The West Company, Incorporated has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

THE WEST COMPANY, INCORPORATED  
(Registrant)

By /s/ Steven A. Ellers

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Steven A. Ellers  
Senior Vice President,  
Finance and Administration

March 31, 1998

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Date

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons in the capacities and on the dates indicated.

| Signature<br>-----   | Title<br>-----  | Date<br>-----  |
|--|---|----------------|
| /s/ William G. Little<br>-----<br>William G. Little*       | Chairman, Director,<br>President, and Chief<br>Executive Officer<br>(Principal Executive Officer) | March 31, 1998 |
| /s/ Tenley E. Albright<br>-----<br>Tenley E. Albright *    | Director  | March 31, 1998 |
| /s/ John W. Conway<br>-----<br>John W. Conway*             | Director  | March 31, 1998 |
| /s/ George W. Ebright<br>-----<br>George W. Ebright*       | Director  | March 31, 1998 |
| /s/ Steven A. Ellers<br>-----<br>Steven A. Ellers*         | Senior Vice President<br>Finance and Administration   | March 31, 1998 |
| /s/ L. Robert Johnson<br>-----<br>L. Robert Johnson*       | Director  | March 31, 1998 |
| /s/ William H. Longfield<br>-----<br>William H. Longfield* | Director  | March 31, 1998 |

| Signature<br>-----                                     | Title<br>-----   | Date<br>-----  |
|--|--|----------------|
| /s/ John P. Neafsey<br>-----<br>John P. Neafsey*       | Director   | March 31, 1998 |
| /s/ Anna Mae Papso<br>-----<br>Anna Mae Papso          | Vice President and<br>Corporate Controller<br>(Principal Accounting Officer) | March 31, 1998 |
| /s/ Monroe E. Trout<br>-----<br>Monroe E. Trout*       | Director   | March 31, 1998 |
| /s/ Anthony Welters<br>-----<br>Anthony Welters*       | Director   | March 31, 1998 |
| /s/ J. Roffe Wike, II<br>-----<br>J. Roffe Wike, II*   | Director   | March 31, 1998 |
| /s/ Geoffrey F. Worden<br>-----<br>Geoffrey F. Worden* | Director   | March 31, 1998 |

\* By William G. Little pursuant to a power of attorney.

INDEX TO EXHIBITS

Exhibit  
Number  
- - - - -

- (3) (a) Restated Articles of Incorporation of the Company, incorporated by reference to Exhibit (4) to the Company's Registration Statement on Form S-8 (Registration No. 33-37825).
- (3) (b) Bylaws of the Company, as amended and restated December 13, 1994, incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1994 (File No. 1-8036).
- (4) (a) Form of stock certificate for common stock incorporated by reference to Exhibit (3) (b) to the Company's Annual Report on Form 10-K for the year ended December 31, 1989 (File No. 1-8036).
- (4) (b) Flip-In Rights Agreement between the Company and American Stock Transfer & Trust Company, as Rights Agent, dated as of January 16, 1990, incorporated by reference to Exhibit 1 to the Company's Form 8-A Registration Statement (File No. 1-8036).
- (4) (c) Flip-Over Rights Agreement between the Company and American Stock Transfer & Trust Company, as Rights Agent, dated as of January 16, 1990, incorporated by reference to Exhibit 2 to the Company's Form 8-A Registration Statement (File No. 1-8036).
- (9) None.
- (10) (a) Lease dated as of December 31, 1992 between Lion Associates, L.P. and the Company, relating to the lease of the Company's headquarters in Lionville, Pa., incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-8036).
- (10) (b) First Addendum to Lease dated as of May 22, 1995 between Lion Associates, L.P. and the Company, incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1995 (File No. 1-8036).
- (10) (c) Long-Term Incentive Plan, as amended March 2, 1993, incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-8036).
- (10) (d) Amendments to the Long Term Incentive Plan, dated April 30, 1996, incorporated herein by reference to the Company's Form 10Q for the quarter ended June 30, 1996 (File No. 1-8036).

F - 1

Exhibit  
Number  
- - - - -

- (10) (e) Executive Incentive Bonus Plan 1998.
- (10) (f) Non-Qualified Stock Option Plan for Non-Employee Directors, incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1992 (File No. 1-8036).
- (10) (g) Amendments to the Non-Qualified Stock Option Plan for Non-Employee Directors, dated April 30, 1996, incorporated herein by reference to the Company's Form 10Q for the quarter ended June 30, 1996 (File No. 1-8036).
- (10) (h) Form of agreement between the Company and certain of its executive officers, incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-8036).
- (10) (i) Schedule of agreements with executive officers.
- (10) (j) Supplemental Employees' Retirement Plan, incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1989 (File No. 1-8036).
- (10) (k) Amendment No. 1 to Supplemental Employees' Retirement Plan, incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1995 (File No. 1-8036).
- (10) (l) Amendment No. 2 to Supplemental Employees' Retirement Plan, incorporated by reference to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1995 (File No. 1-8036).
- (10) (m) Retirement Plan for Non-Employee Directors of the Company, as amended November 5, 1991, incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-8036).

- (10) (n) Employment Agreement dated May 20, 1991 between the Company and William G. Little, incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1991 (File No. 1-8036).
- (10) (o) Non-qualified Deferred Compensation Plan for Designated Executive Officers, incorporated by reference to the Company's Quarterly Report on Form 10-Q for the period ended September 30, 1994 (File No. 1-8036).

F - 2

Exhibit  
Number  
- - - - -

- (10) (p) Amendment No. 1 to Non-Qualified Deferred Compensation Plan for Designated Executive Officers, incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1994 (File No. 1-8036).
- (10) (q) Non-qualified Deferred Compensation Plan for Outside Directors, incorporated by reference to the Company's Annual Report on Form 10-K for the year ended December 31, 1989 (File No. 1-8036).
- (10) (r) Agreement and Plan of Merger dated March 24, 1995 among the Company, Stoudt Acquisition Corp. and Paco Pharmaceutical Services, Inc. incorporated by reference to the Company's Schedule 14 D-1, filed with the Commission on March 30, 1995.
- (10) (s) Lease Agreement, dated August 31, 1978, between Paco Packaging, Inc. and Nineteenth Lakewood Corp., as amended by Amendment of Lease, dated November 30, 1978, Second Amendment of Lease, dated August 6, 1979, Third Amendment of Lease, dated July 24, 1980 and Fourth Amendment of Lease, dated August 14, 1980, incorporated by reference to the Exhibits to Paco Pharmaceutical Services, Inc.'s Registration Statement on Form S-1, Registration No. 33-48754, filed with the Commission.
- (10) (t) Fifth Amendment of Lease, dated May 13, 1994, to the Lease Agreement, dated August 31, 1978, between Paco Packaging, Inc. and Nineteenth Lakewood Corp., incorporated by reference to the Exhibits to Paco Pharmaceutical Services, Inc.'s Annual Report on Form 10-K for the year ended March 31, 1994, Commission (File number 0-20324).
- (10) (u) Lease Agreement, dated December 9, 1977, between Paco Packaging, Inc. and New Oak Street Corp., as amended by the Amendment to Lease Agreement, dated August 31, 1978, Second Amendment of Lease, dated April 8, 1979 and Third Amendment of Lease, dated November 16, 1983, incorporated by reference to the Exhibits to Paco Pharmaceutical Services, Inc.'s Registration Statement on Form S-1, Registration No. 33-48754, filed with the Commission.

F - 3

Exhibit  
Number  
- - - - -

- (10) (v) Lease Agreement, dated April 7, 1986, between Northlake Realty Co. Inc. and Paco Packaging, Inc., as amended by Amendment to Lease, dated July 1, 1986, Second Amendment of Lease, dated June 15, 1987 between Paco Packaging and C. P. Lakewood, L. P., Agreement, dated December 29, 1987, and Lease Modification Agreement, dated December 13, 1989, incorporated by reference to the Exhibits to Paco Pharmaceutical Services, Inc.'s Registration Statement on Form S-1, Registration No. 33-48754, filed with the Commission.
- (10) (w) Collective Bargaining Agreement, dated December 1, 1997, by and between Paco Pharmaceutical Services, Inc. and Teamster Local 35 (affiliated with the International Brotherhood of Teamsters).
- (10) (x) Severance and Non-Compete Agreement, dated July 8, 1996, between Lawrence P. Higgins and the Company, incorporated herein by reference to the Company's Form 10Q for the quarter ended June 30, 1996 (File No. 1-8036).
- (10) (y) 1998 Key Employee Incentive Compensation Plan, dated March 10, 1998.
- (11) Not Applicable.
- (12) Not Applicable.
- (13) 1997 Annual Report to Shareholders.
- (16) Not applicable.
- (18) None.
- (21) Subsidiaries of the Company.
- (22) None.
- (23) Consent of Independent Accountants.
- (24) Powers of Attorney.
- (27) Financial Data Schedules
- (27.1) Financial Data Schedules. (3, 6, 9 and 12 mos., 1996; 12-mos 1995)
- (27.2) Financial Data Schedules. (3 and 12 mos. 1997)
- (27.3) Financial Data Schedules. (6 and 9 mos. 1997)

Exhibit  
Number  
- - - - -

(99)        None.

EXECUTIVE  
INCENTIVE  
BONUS  
PLAN  
1998

The Incentive Bonus Plan for 1997 is based on the following concepts:

- \* Excellent service to our customers will create shareholder value.
- \* Employees must share in the Company's success.
- \* Return on Shareholders' Equity (ROE) is the measurement of success for the total corporation.

Here's how the plan works:

#### TARGET BONUS

The target bonus opportunity is a specific percentage of your base salary (as of December 31, 1998) and represents the amount of bonus you will receive if 100% of all performance factors are achieved.

#### PERFORMANCE FACTORS

There are two performance factors which are used to calculate bonuses:

- \* 75% of the bonus calculation will depend on our achievement of the Return on Equity (ROE) target committed to in the Company's business plan for 1998.
  - \* 25% of the bonus calculation will be based on achievement of our corporate goals related to the development of new business for The West Company.
1. our success in growing West's current business revenues through new business
  2. our success with increasing West's revenues through new business opportunities (acquisitions, mergers, licensing agreements, etc.)

#### BONUS CALCULATION

When the Company's ROE results exceed the target, your bonus will increase as results improve. If the results at least reach the threshold but fall short of the target, your bonus will be something less than your target bonus opportunity. The following scale will be used for calculating bonuses:

| EPS Achieved |           | % of Bonus Achieved |
|--------------|-----------|---------------------|
| \$2.80       | -maximum- | 150                 |
| 2.74         |           | 140                 |
| 2.68         |           | 130                 |
| 2.63         |           | 120                 |
| 2.57         |           | 110                 |
| 2.51         | -target-  | 100                 |
| 2.45         |           | 90                  |
| 2.39         |           | 80                  |
| 2.34         |           | 70                  |
| 2.28         |           | 60                  |
| 2.22         |           | 50                  |
| Below \$2.22 |           | 0                   |

Interim EPS amounts will be calculated using  $\$.01 = 1.67\%$

#### BONUS PAYOUTS

Once the year's results are confirmed, your bonus award will be calculated applying appropriate tax deductions. Of the after-tax amount, 75% will be paid in cash (check) and 25% will be converted into shares of common stock of The West Company. These shares will be deposited with an investment firm where accounts are maintained for our Stock Bonus Plan. We encourage you to retain these shares so as to accumulate shares toward your personal stock ownership objective and to take advantage of the Incentive Share opportunities of the Stock Bonus Plan. Here are the highlights of the Stock Bonus Plan and information on your personal stock ownership guideline.

EXAMPLE

An executive earning \$120,000, whose target bonus is 30%, would have his/her bonus calculated as follows if the Company achieves an EPA of \$2.52 and is awarded 100% for revenue growth.

|             |     |   |                    |   |             |   |                       |   |                |   |          |   |                 |
|-------------|-----|---|--------------------|---|-------------|---|-----------------------|---|----------------|---|----------|---|-----------------|
| EPS         | 75% | x | Target Bonus       | = | Bonus% Opp. | x | Achieved (from scale) | = | Bonus % Earned | x | Salary   | = | Bonus \$ Earned |
| Rev. Growth | 25% | x | Target Bonus       | = | Bonus Opp.  | x | % Achieved            | = | Earned         | x | Salary   | = | Bonus \$ Earned |
| EPS         | 75% | x | 30%                | = | 22.5%       | x | 101.67%               | = | 22.88          | x | 120,000  | = | \$27,456        |
| Rev. Growth | 25% | x | 30%                | = | 7.5%        | x | 100%                  | = | 7.5%           | x | 120,000  | = | \$9,000         |
|             |     |   | TOTAL BONUS EARNED |   |             |   | 30.38%                |   |                |   | \$36,456 |   |                 |

## STOCK BONUS PLAN

- o 25% of your after-tax annual bonus is paid in shares of The West Company common stock.  
  
Participants may elect to commit shares ("Bonus Shares") to long-term holding by depositing those shares into an authorized account. Shares will be held in the participant's name.
- o If a participant commits to long-term holding, a number of restricted shares ("Incentive Shares") equal to 25% of the committed bonus shares will be issued to the participant.
- o The Incentive Shares will be legended so that the restrictions lapse at the end of four years from the date of issuance, so long as the bonus shares are continuously held by the participant during that four year period.
- o If a participant retires under The West Company's Salaried Employees' Retirement Plan, the restrictions will lapse, so long as the bonus shares have been retained continuously. He/she will be entitled to receive a portion of the Incentive Shares according to the following schedule:  
  
25% with at least one but less than two years continuous ownership of the Bonus Shares.  
  
50% with at least two but less than three years continuous ownership of the Bonus Shares.  
  
75% with at least three but less than four years continuous ownership of the Bonus Shares.
- o Participants will receive dividends from Bonus Shares and restricted shares as they are declared. These dividends will be reinvested in stock of The West Company.
- o Ownership records will be reviewed annually to verify continuous ownership.
- o The Plan is authorized under the LONG-TERM INCENTIVE PLAN.

## STOCK OWNERSHIP GUIDE

Your personal stock ownership guideline is \_\_\_\_% of your base salary and is expected to be achieved in 5-7 years from the time the Stock Bonus Plan was implemented (1993) or from the year an individual becomes eligible to participate in the Incentive Bonus Plan.

## MONITORING OUR PROGRESS

Our progress in achieving the ROE target will be communicated throughout the year, and your manager will review your individual objectives on a quarterly basis.

Use your TQM skills to lead the organization in overachieving our business objectives. You will share in the reward when we succeed.

## ELIGIBILITY

Eligibility and the amount and type of awards under this plan are solely at the discretion of management and are not guaranteed under any circumstances. Participants must be active employees on December 31, 1998 to be eligible for bonus payment consideration.

AGREEMENT

by and between

PACO PHARMACEUTICAL SERVICES, INC.

and

TEAMSTERS LOCAL NO. 35

EFFECTIVE:  
DECEMBER 1, 1997

EXPIRATION:  
NOVEMBER 30, 2000

TABLE OF CONTENTS

-----

|  | PAGE |
|--|------|
| PREAMBLE   | 1    |
| ARTICLE 1 - PURPOSE                              | 1    |
| ARTICLE 3 - UNION RECOGNITION                    | 1    |
| ARTICLE 4 - UNION SECURITY                       | 2    |
| ARTICLE 5 - SEPARABILITY AND SAVINGS CLAUSE      | 3    |
| ARTICLE 6 - HIRING EMPLOYEES                     | 4    |
| ARTICLE 7 - CHECKOFF                             | 5    |
| ARTICLE 8 - MANAGEMENT RIGHTS                    | 5    |
| ARTICLE 9 - NON-DISCRIMINATION                   | 6    |
| ARTICLE 10 - INSPECTION PRIVILEGES               | 7    |
| ARTICLE 11 - FAIR DAY'S WORK                     | 7    |
| ARTICLE 12 - JOB STEWARDS                        | 7    |
| ARTICLE 13 - DISCHARGE OR SUSPENSION             | 9    |
| ARTICLE 14 - GRIEVANCE AND ARBITRATION PROCEDURE | 10   |
| ARTICLE 15 - NO STRIKE - NO LOCKOUT              | 14   |
| ARTICLE 16 - BREAK PERIODS                       | 15   |
| ARTICLE 17 - LEAVE OF ABSENCE                    | 15   |
| ARTICLE 18 - MILITARY DUTY                       | 17   |
| ARTICLE 19 - LIE DETECTOR TEST                   | 18   |
| ARTICLE 20 - SAFETY AND HEALTH                   | 18   |
| ARTICLE 21 - NEW EQUIPMENT                       | 20   |
| ARTICLE 22 - TRANSFER OF TITLE                   | 20   |
| ARTICLE 23 - BULLETIN BOARDS                     | 21   |
| ARTICLE 24 - SPECIAL SHIFTS                      | 21   |

|  |    |
|--|----|
| ARTICLE 25 - FLEXIBLE WORK WEEK            | 21 |
| ARTICLE 26 - DIFFERENTIALS FOR LATE SHIFTS | 25 |
| ARTICLE 27 - WORK DAY AND WEEK             | 25 |
| ARTICLE 28 - DAILY GUARANTEES              | 26 |
| ARTICLE 29 - FUNERAL LEAVE                 | 26 |
| ARTICLE 30 - JURY DUTY                     | 27 |
| ARTICLE 31 - PREMIUM RATES                 | 27 |
| ARTICLE 32 - HEALTH AND WELFARE            | 31 |
| ARTICLE 33 - HOLIDAY PAY                   | 34 |
| ARTICLE 34 - VACATIONS                     | 35 |
| ARTICLE 35 - SENIORITY                     | 37 |
| ARTICLE 36 - JOB OPENINGS                  | 40 |
| ARTICLE 37 - TRANSFERS                     | 42 |
| ARTICLE 38 - SUPERVISION                   | 43 |
| ARTICLE 39 - PENSION                       | 44 |
| ARTICLE 40 - PLANT RULES                   | 45 |
| ARTICLE 41 - WAGES                         | 45 |
| ARTICLE 42 - TERMS OF AGREEMENT            | 50 |

PREAMBLE

-----

This Agreement by and between Paco Pharmaceutical Services, Inc., located in Lakewood, New Jersey, hereinafter referred to as the "Company," or the "Employer," and Teamsters Local No. 35, 620 U.S. Route 130, Trenton, New Jersey, affiliated with the International Brotherhood of Teamsters, hereinafter referred to as the "Union."

1 - PURPOSE

-----

Whereas, the parties hereto desire to establish uniform standards and hours of labor, rates of pay and other conditions under which the employees classified herein shall work for the Employer during the life of this Agreement and thereby promote a relationship between the parties hereto providing for more harmonious and efficient cooperation and mutual benefit.

2 - CONSIDERATION

-----

Now, therefore, in consideration of the performances in good faith by both parties, individually and collectively, of the terms and conditions of this Agreement, the parties agree to and with each other as follows.

3 - UNION RECOGNITION

-----

The Employer agrees to recognize Teamsters Local 35 as the exclusive bargaining representative for all of its production and maintenance employees as classified herein employed by the Employer at its locations in Lakewood, New Jersey, excluding all office clerical employees, quality control and quality assurance employees, mechanics and mechanic trainees, technical employees, professional employees, guards and supervisors within the meaning of the National Labor Relations Act, as amended.

Whenever the masculine pronoun or possessive is used in this Agreement, the feminine pronoun or possessive is also intended.

4 - UNION SECURITY

-----

All present employees in the bargaining unit who are members of the Local Union on the effective date of this subsection or on the date of execution of this Agreement, whichever is the later, shall remain members of the Union in good standing as a condition of employment. All present employees in the bargaining unit who are not members of the Union and all employees who are hired hereafter shall become and remain members in good standing of the Union as a condition of employment on and after the thirty-first (31st) calendar day following the beginning of their employment or on and after the thirty-first (31st) calendar day following the effective date of this subsection or the date of this Agreement, whichever is the later. This provision shall be made and become effective as of such time as it may be made and become effective under the provisions of the National Labor Relations Act, but not retroactively.

At the conclusion of the thirty-one (31) calendar day period, the Employer will send to the Union an authorization for check-off form within a reasonable period of time.

The failure of any person to become a member of the Union at the required time shall obligate the Employer, upon written notice from the Union to such effect and to the further effect that Union membership was available to such person on the same terms and conditions generally available to other members, to forthwith discharge such person. Furthermore, the failure of any person to maintain his Union membership in good standing as required herein shall, upon written notice to the Employer by the Union to such effect, obligate the Employer to discharge such person.

In the event of any change in the law during the term of this Agreement, the Employer agrees that the Union will be entitled to receive the maximum union security which may be lawfully permissible.

No provision of this Article shall apply in any state to the extent that it may be prohibited by state law. If under applicable state law additional requirements must be met before any such provision may become effective, such additional requirements shall first be met.

If any provision of this Article is invalid under the law of any state wherein this Agreement is executed, such provision shall be modified to comply with the requirements of state law or shall be renegotiated for the purpose of adequate replacement. If such negotiations shall not result in a mutually satisfactory agreement, the Union shall be permitted all legal or economic recourse.

5 - SEPARABILITY AND SAVINGS CLAUSE

-----

If any Article or Section of this Agreement or of any supplements or riders thereto should be held invalid by operation of law or by any tribunal of competent jurisdiction, or if compliance with, or enforcement of any Article or Section should be restrained by such tribunal pending a final determination as to its validity, the remainder of this Agreement and of any supplement or riders thereto or the application of such Article or Section to persons or circumstances with or enforcement of has been restrained, shall not be affected thereby.

In the event that any Article or Section is held invalid or

enforcement of or compliance with which has been restrained as above set forth, the parties affected thereby shall enter into immediate collective bargaining negotiations upon the request of the Union or Company, for the purpose of arriving at a mutually satisfactory replacement for such Article or Section during the period of invalidity or restraint. If the parties do not agree on a mutually satisfactory replacement within sixty (60) days after beginning of the period of invalidity or restraint, the matter shall be referred to arbitration.

#### 6 - HIRING EMPLOYEES

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##### 1. Probationary Employees

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Every new employee shall be on probation for a period of sixty (60) days worked, and during such period the Employer may dispense with his or her services for any reason without any question or objection by the Union or employee.

##### 2. Shift Preference

-----

No new employee shall be hired for day work until night shift employees have been given the opportunity to bid on jobs that are vacant on the day shifts; provided, that such transfers will not be made where they interfere with requirements of reasonable training periods, not to exceed thirty (30) days worked.

This section relates to rated jobs only. Employees hired for the first shift, second or third shift can only be switched to a different shift at the discretion of the Company and only if it does not interfere with the operation of the business.

##### 3. Part Time Employees

-----

The Employer agrees that it will not make use of part time employees in the classifications covered by this Agreement.

#### 7 - CHECKOFF

-----

The Employer agrees to deduct from the last pay each month of all employees covered by this Agreement the dues, the initiation fees, and/or uniform assessments of the Union having jurisdiction over such employees as specified by the Union from time to time, and agrees to remit to said Union all such deductions in a manner described by the Union prior to the tenth (10th) of the month for which the deduction is made. Where written authorization is required by law, the same is to be furnished by the Union in the form required. No deduction shall be made which is prohibited by applicable law.

#### 8 - MANAGEMENT RIGHTS

-----

##### 1.

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It is recognized that the well-being of both parties is directly dependent upon the skill and efficiency and methods of operation with which the business of the Employer is conducted, and that any assumption of the functions of the management by representative of the Union is contrary to the intent and purpose of this Agreement. Union agrees to do everything within its power by full cooperation with the Employer to bring about the most efficient operation.

##### 2.

---

The authority and responsibility for the management of the business shall repose exclusively on the Employer and its appointed representatives, and the Union or its representatives shall not interfere with the exercise of such authority or responsibility. The Employer maintains its inherent right to transfer employees from one department or assignment to another or to assign employees as operating procedures may require, and to introduce mechanization changes or palletized loading or the use of other equipment as may arise out of the requirements of its business; however, the Employer agrees to negotiate in advance with the Union any broad changes in its operation which would result in the elimination of jobs for members of the Union. No provision of this section shall be binding if it conflicts with other provisions of this Agreement.

#### 9 - NON-DISCRIMINATION

-----

##### 1.

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The Employer and the Union agree to not discriminate against any individual with respect to hiring, compensation, terms or conditions of employment because of such individual's race, color, religion, sex, national origin or age, nor will they limit, segregate or classify employees in any way to deprive any individual employee of employment opportunity because of race, color, religion, sex, national origin or age, and will comply with the Rehabilitation Act of 1973 (Sec. 503) and the Vietnam Era Veterans Readjustment Act of 1974 (Sec. 402) and the Americans With Disabilities Act.

##### 2.

---

The Company and the Union agree that there will be no discrimination by the Company or the Union against any employee because of his or her membership in the Union or because of any employee's lawful activity in the Union.

##### 3.

---

Employees shall be free from interference, restraint or coercion by the Employer in their activities on behalf of the Union. Employees shall refrain from participation in Union matters during working hours, except as

provided in this Agreement.

#### 10 - INSPECTION PRIVILEGES

Authorized agents of the Union shall have access to the Employer's establishment during working hours for the purpose of adjusting disputes, investigating working conditions, collection of dues and ascertaining whether the Agreement is being adhered to, provided however, that there is no interruption of the firm's working schedule, and management is notified of the Union's presence in the Plant.

#### 11 - FAIR DAY'S WORK

It is agreed that each employee is obligated to give a fair day's work. Such obligation shall not be measured by use of industrially engineered standards, but may be measured by other applicable criteria. Failure to give a fair day's work shall be cause for discipline.

#### 12 - JOB STEWARDS

The Employer recognizes the right of the Union to designate Job Stewards and Alternates.

The authority of Job Stewards and Alternates so designated by the Union shall be limited to and shall not exceed the following duties and activities:

1. The investigation and presentation of grievances in accordance with the provisions of collective bargaining agreement;
2. The collection of dues when authorized by appropriate Union action;
3. The transmission of such messages and information which shall originate with, and are authorized by the Union or its officers, provided such messages and information:
  - b. Have been reduced to writing, or
  - c. If not reduced to writing, are of a routine nature and do not involve work stoppages, slowdowns, refusal to handle goods, or any other interference with the Employer's business.

Job Stewards and Alternates have no authority to take strike action, or any other action interrupting the Employer's business.

The Employer recognizes these limitations upon the authority of Job Stewards and Alternates and shall not hold the union liable for any unauthorized acts. The Employer in so recognizing such limitations shall have the authority to impose proper discipline, including discharge, in the event the Job Steward has taken unauthorized strike action, slowdown, or work stoppage in violation of this Agreement.

Stewards shall be permitted to investigate, present and process grievances on or off the property of the Employer without loss of time or pay. Such time spent in handling grievances shall be considered working hours in computing daily and/or weekly overtime.

The Union shall have the right to designate Stewards and Alternate Stewards and shall attempt to limit Stewards to one (1) Steward for every one hundred (100) employees; provided, however, there shall always be not less than one (1) Steward for each shift of employees within each building regardless of the number of employees on such shift and regardless of the total number of Stewards. Job Stewards, while serving in that capacity, shall receive top seniority in their classification for the purpose of lay-off.

#### 13 - DISCHARGE OR SUSPENSION

1.

The Employer shall not discharge nor suspend any employee without just cause. In all cases involving the discharge or suspension of an employee, the Employer must immediately notify the employee in writing of his discharge or suspension and the reason therefore. Such written notice shall also be given to the Job Steward and a copy mailed to the Union office within two (2) working days from the time of the discharge or suspension.

2.

In respect to a discharge, the Employer must give one (1) warning notice of the specific complaint against such employee in writing and a copy of the same to the Union and the Job Steward. It is understood that the posted plant rules may require varying degrees of disciplinary action. If the violation is one which is cause for immediate dismissal then no warning is required. The warning notice as herein provided shall not remain in effect for a period of more than twelve (12) months from the date of the occurrence upon which the complaint and warning notice are based. No rules may be in conflict with the provisions of this Agreement.

3.

Any employee who resigns, retires or is discharged must be paid in full for all wages owed him by the Employer, including earned vacation pay, if any, within the later of five (5) days from the date of discharge or by the next payroll period.

4.

- - -

A discharged or suspended employee must advise the Union in writing within two (2) working days after receiving notification of such action against him of his desire to appeal the discharge or suspension. Notice of appeal from discharge or suspension must be made to the Employer in writing within five (5) days from the date of discharge or suspension.

5.

- - -

Should it be proven that an injustice has been done to a discharged or suspended employee, he shall be fully reinstated in his position and compensated at his usual rate of pay for lost work opportunity. If the Union and the Employer are unable to agree as to the settlement of the case, then it may be referred to the Grievance Procedure as set forth in this Agreement, within ten (10) days after the above notice of appeal is given to the Employer.

14 - GRIEVANCE AND ARBITRATION PROCEDURE

-----

1.

- - -

A grievance is hereby jointly defined to be any controversy, complaint, misunderstanding or dispute.

Any grievance arising between the Company and the Union or an employee represented by the Union shall be settled in the following manner:

The aggrieved employee or employees and/or Job Steward must orally present the grievance immediately or as soon as practical to the immediate foreman in whose area the grievance arose. The foreman, employee and/or Job Steward shall orally attempt to resolve the grievance at that time, if no satisfactory settlement is reached following the oral attempt, the aggrieved employee must present the grievance in writing to the Job Steward within three (3) working days after the foreman's oral answer or within five (5) working days after the reason for the grievance occurred. The Job Steward shall present the grievance in writing to the foreman within one (1) working day after receiving same and the foreman shall answer such grievance in writing to the Job Steward within one (1) working day. No time limits shall apply in case of violation of wage provisions of this Agreement. If no satisfactory settlement is reached then the grievance shall proceed to STEP 2.

2. The Job Steward and the employee shall within two (2) working days following the written answer from the foreman in STEP 1 submit the grievance in writing to the Union's Business Representative. Within five (5) working days, the Business Representative shall meet with a representative of the Company with authority to act to attempt to resolve said grievance, unless such time limit is actually extended by the parties. A decision must be made and a written answer given within five (5) working days after conclusion of the above meeting.

If the Company fails to comply with any settlement of the grievance or fails to comply with the procedures of this Article, the Union has the right to take all legal and economic action to enforce its demands; provided, however, no sanction by way of strike or otherwise shall be imposed by the Union on the Employer until after the parties have met to determine the time when the settlement made shall be implemented. The notice shall be given by the Union to the Employer that such a meeting is requested by the Union. The meeting shall be held within three (3) working days after notice shall be given by the Union to the Company that such a meeting is requested by the Union.

2.

- - -

In accordance with Article 12, any Job Steward shall be permitted to leave work with all reasonable speed to investigate and adjust the grievance of any employee within his jurisdiction, after notification to his supervisor. Employees shall have the right to have the Job Steward, or a representative of the Union, present during the discussion of any grievance with representatives of the Company.

3.

- - -

If no satisfactory settlement can be agreed upon, the parties shall select a mutually agreeable and impartial Arbitrator within five (5) working days after receipt of a written answer in STEP 2 above. In the event they are unable to agree upon an Arbitrator, the matter shall be referred to the American Arbitration Association within ten (10) working days after receipt of written answer above and the Arbitrator shall be selected in accordance with the rules of that agency. The expense of the Arbitrator selected or appointed shall be borne equally by the Company and the Union.

4.

- - -

The Arbitrator shall have no authority to amend or modify this Agreement or establish new terms and conditions under this Agreement. The Arbitrator shall determine any question of arbitrability. In the event the position of the Union is sustained, the aggrieved party shall be entitled to all the Health and Welfare and Pension benefits of this Agreement which would have accrued to him had there been no grievance.

5.

- - -

Both parties agree to accept the decision of the Arbitrator as final and binding. If the Company fails within the time fixed by the Arbitrator to comply with the award of the Arbitrator or with the procedures of this Article, the Union has the right to take all legal action enforcing compliance.

6.

- - -  
Notwithstanding anything contained herein, it is agreed that in the event the Employer is delinquent at the end of a period in the payment of contributions to the Health and Welfare Fund created under this Agreement in accordance with the rules and regulations of the Trustees of such funds, after the principal officer or his designated representative of the Union has given seventy-two (72) hours notice to the Employer of such delinquency in Health and Welfare payments, the employees or their respective representatives shall have the right to take such action as may be necessary until such delinquent payments are made and it is further agreed that in the event such action is taken, the Employer shall be responsible to the employees for losses resulting therefrom.

The Union agrees to save the Employer harmless if the delinquency is proven to be through no fault of the Employer.

15 - NO STRIKE - NO LOCKOUT  
-----

1.  
- - -  
The Company agrees that during the term of this Agreement, it will not engage in any lockout in whole or in part of its employees.

2.  
- - -  
Except as otherwise provided in this Agreement, during the term of this Agreement, the employees covered hereby shall not engage in, encourage or sanction any strike, sitdown, picketing or any such actions which will interrupt or interfere with the operations of the Company. No suit or claim of damages shall be instituted or initiated by the Company against the Union, its representatives or members by reason of such strike if the Union has taken the steps described herein. The Union agrees that during the term of this Agreement, neither it nor its officers or agents will engage in, encourage or sanction any strike, sitdown, picketing or such actions which will interrupt or interfere with the operations of the Company. In the event of any unauthorized violation of this Agreement, the Union agrees that upon telegraphic notification by the Company, it will take affirmative steps with the employees concerned to bring about a resumption of the normal operation of the Company.

3.  
- - -  
It is further agreed that in the event of any violation of this Article, except as provided otherwise in Article 32, Section 32.03, the Company may discharge or otherwise discipline any employee (whether individually or in a group) who has violated such Article. In such event, an employee discharged or otherwise disciplined may file a grievance under the grievance provisions of this Agreement.

16 - BREAK PERIODS  
-----

The Employer will pay breaks and wash-up time as follows: a fifteen (15) minute break in the morning and a fifteen (15) minute break in the afternoon. In addition, a five (5) minute period will be provided for work area clean-up time. Such time will commence ten (10) minutes prior to the end of the shift and terminate five (5) minutes prior to the end of the shift. At this time the employee will be permitted to leave his work area for personal clean-up time and/or to ring out. The above time will be designated by ringing of an alarm. In addition, the Employer will provide a fifteen (15) minute break to employees scheduled to work more than ten (10) hours in any day. Such breaks shall begin not later than the start of the tenth (10th) hour.

17 - LEAVE OF ABSENCE  
-----

1.  
- - -  
An employee desiring a leave of absence from employment shall submit a written request fully explaining the reason for the leave. Requests for medical leave must be supported by a proper certificate from a physician. The initial period for all leaves shall not exceed three (3) months. Permission will not be unreasonably withheld. The Employer will make its response in writing to the employee. Employees on leave of absence will not earn or receive holiday pay, vacation pay, funeral pay or jury pay, except employees on approved sick leave of absence may accrue vacation pay on the basis of a maximum of three (3) month accrual credit.

2.  
- - -  
During the leave period, the employee will not engage in gainful employment. Failure to comply with this provision may result in termination for the employee involved.

3.  
- - -  
Extensions of the original leave for periods not to exceed thirty (30) days shall be granted, provided proper certificate from the employee's attending physician is presented to support requests for such extension.

4.  
- - -  
Six (6) consecutive months shall be the maximum period for which a sick leave and subsequent extensions, as defined above, shall be granted. Further extensions may be granted by mutual consent between the Employer and the Union.

5.  
- - -

Any employee who is absent from work for more than two (2) calendar weeks because of sickness shall be required to obtain sick leaves as provided in Section 18.01. Failure to obtain such approval shall result in his being separated from the payroll as having voluntarily quit.

6.  
- - -

Maternity leave will be treated as a medical leave. Maternity leave will commence when the employee's condition substantially interferes with job performance, or when a physician so recommends, whichever is sooner.

7.  
- - -

Leaves in accordance with the Family and Medical Leave Act ("FMLA") shall comply with the West Company's Medical and Family Leaves of Absence Policy, Policy No. POL-PER 435, except that in accordance with the New Jersey Medical Leave Act, an eligible employee shall be one who has worked one thousand or more base hours during the preceding twelve (12) month period. Notwithstanding anything contained within that policy, no employee shall be required to use otherwise available leave before becoming eligible for FMLA leave.

#### 18 - MILITARY DUTY

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1.  
- - -

Any employee who shall enter into the Armed Services of the Country shall, at the end of such Service, if physically and mentally fit, be reinstated to his former position with full seniority, provided however:

He shall make application for reinstatement within ninety (90) days from his Honorable Discharge from the Armed Forces, or within such further period as may hereafter be prescribed by law, and the Employer's circumstances have not so changed as to make it impossible to provide employment.

2.  
- - -

Reserve servicemen will be allowed two (2) weeks time to train under Government regulation and this time may not be charged against the employee's vacation unless the employee requests his vacation at that time.

#### 19 - LIE DETECTOR TEST

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The Employer shall not require, request or suggest that an employee or applicant for employment take a polygraph or any other form of lie detector test.

#### 20 - SAFETY AND HEALTH

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##### 1. Sanitary Conditions

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Heating, lighting, toilet, locker and sanitary facilities and all protective devices necessary to protect the health of employees shall be provided by the Employer. The Union will at all times cooperate with and assist the Employer in maintaining safety and health conditions in the plant.

Grievances which arise under Section 20.01 and which are not settled in the Joint Safety Committee may be filed under Article 14 as a regular grievance.

##### 2. Safety Committee

-----

A safety committee shall be established consisting of one (1) member appointed by the Union and one (1) member appointed by the Employer. The Employer shall pay for time spent by the Union member of the committee to a maximum of four (4) hours per month.

##### 3. Committee Functions

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It shall be the function of the Joint Safety Committee to:

1. Recommend improvements in safety, sanitation and health conditions affecting employees.

2. Investigate the cause of industrial accidents and compensable industrial illness.

##### 4. On-the-Job Injuries

-----

Should an employee be injured at work and unable to continue working as a result of the injury as determined by medical authority, he or she shall be paid for the entire day. Should he/she lose time during any day thereafter for treatment for injuries suffered while employed, he/she shall be paid for lost time, not to exceed one (1) hour, and the same is to be counted as time worked for the purpose of computing overtime pay. However, for purposes of this Section, an employee shall not be compensated more than eight (8) hours of lost time for treatment of any single occurrence. No employee shall lose his/her job as a result of such injury. If he/she is physically able to perform after he/she has recovered from his/her injury, he/she shall be entitled to resume his/her job. In the event of injury, the Company has the right to send the injured employee to the Company's designated compensation doctor approved by their insurance coverage. If an injured employee desires the services of a Doctor it shall be granted as soon as possible. The Company shall provide transportation where necessary for medical attention on the day of the accident. The Company agrees to notify the Steward within a reasonable time of the

occurrence of any accident or injury on the Employer's premises during working hours involving a bargaining unit employee or employees.

5.  
- - -

The Company and Union agree to adopt The West Company's Controlled Substances Policy, Policy No. POL-PER 446, dated July 30, 1997, except that it is agreed that the Company will not engage in random drug testing as described within that Policy, nor engage in the search of automobiles for the purchase of determining compliance with the Policy.

As further clarification, in the event that the Company requires an employee to test under this Policy, and that employee tests negative, the Company will be responsible for the payment of wages for all missed work time relating to the negative drug test. As a further clarification, upon return to work, an employee will be required only to successfully complete a controlled substance screening. Employees will not be required to contact their physicians to alter drug dosages or treatment as provided for by the West policy.

21 - NEW EQUIPMENT  
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Whenever the introduction of new equipment or machinery or the creation of a new classification or the combination of existing classification causes a substantial change in the kind of duties performed by any employee, then the Employer and the Union shall discuss the appropriate rate for the new or substantially altered job classification. Should the parties be unable to reach agreement on the appropriate rate, then the Employer may set a rate and the job will be posted and bid and the work will proceed, provided that the Union may process the issue of permanent appropriate rate through the grievance and arbitration procedure.

22 - TRANSFER OF TITLE  
-----

In the event during the term of this contract, the Employer sells, leases, assigns, merges or in any other way give overall or any part of its existing operation, the present contract will continue to be binding upon whatever new enterprise operates the Employer's business or any part thereof. This provision shall be fully applicable regardless of the form or extent to which the transfer takes place and all members of the bargaining unit shall continue to have full rights under the contract with the new or altered operations, and the contract shall be fully applicable upon all aspects of the operation, both those transferred and those which may not be.

23 - BULLETIN BOARDS  
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The Employer agrees to provide suitable bulletin boards for the exclusive use of the Union in a place accessible to all employees covered hereunder.

24 - SPECIAL SHIFTS  
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The Employer may continue as is the practice to establish Special Shifts of work which require earlier start times and/or later stop times than established in this Agreement.

The Employer agrees that it will post the usual notice for this purpose for six (6) work days.

The required positions will be filled using the principle of classification seniority for rated positions and general seniority for unrated positions.

Any such shift and the employees selected to staff same shall not remain in effect for more than 90 calendar days without a new bid being implemented.

25 - FLEXIBLE WORK WEEK  
-----

1.  
- - -  
The Employer may designate certain projects to be performed by employees working a flexible work week, something other than a Monday through Friday work schedule as established within Section 27.01.

2.  
- - -  
A flexible work week project will be posted by the Employer. Employees can bid on the flexible work week by using the principle of classification seniority for rated positions and general seniority for unrated positions.

1. If there are not a sufficient number of employees bidding for the flexible work week assignments, then employees hired after December 1, 1997 shall be assigned to the position on the flexible work week schedule. No one shall be assigned to a flexible work week schedule until bidding has been extended to all rated and unrated employees.
2. All employees hired after December 1, 1997 shall be advised at the time of hire that their schedule may become a flexible work week schedule in the event that there are not a sufficient number of employees bidding to work that schedule.

3.  
- - -  
A flexible work week is any five (5) consecutive day period.

Employees working a flexible work week will not be provided premium rates as established by Article 31.01 and 31.03. Instead, employees working a flexible work week will receive a flex premium.

1. The flex premium will be eighteen dollars (\$18.00) for a scheduled work week which includes only a Saturday, twenty-four dollars (\$24.00) for a scheduled work week including only a Sunday.
2. The flex premium will be forty-two dollars (\$42.00) for a scheduled work week which includes both a Saturday and a Sunday.
3. Effective December 1, 1999, the above rates shall be increased to twenty dollars (\$20.00) for Saturday only, to twenty-six dollars (\$26.00) for Sunday only, and to forty-six dollars (\$46.00) for both days.
4. In order to receive the flex premium, the employee must work each scheduled day during that work week. An employee who has not worked, but been paid for vacation, holiday, sick/personal or bereavement and who works at least three (3) days in the scheduled week including all scheduled weekend days, shall remain eligible for the flex premium.

4.  
- - -

Employees working a flexible work week shall be returned to a regular Monday to Friday work week at the conclusion of the flexible work week assignment. Upon return they shall be compensated at premium rates in accordance with Article 31. Flexible work week workers shall be ineligible for Article 31.01 and 31.03 premiums only during these weeks when assigned to and working a flexible work week.

5.  
- - -

The flexible work week must last four (4) weeks or longer. Regular and routine overtime assignments shall continue to be scheduled and assigned in accordance with Section 31.06. The Company shall have the discretion to determine whether, and for how long, the flexible work week is to be used. These assignments are project(s) based in response to customer demands.

1. Employees who successfully bid on flexible work week assignments may after eight (8) weeks provide notice to Human Resources of a desire to return to a regular work schedule and will be accommodated as soon as a replacement can be secured but not later than two (2) weeks after notice of intent to return is provided.
2. Employees with compelling personal reasons will be given the opportunity to return to a regular schedule prior to eight (8) weeks.
3. An employee working a regular work week who is notified of layoff will be permitted to use seniority to bump a less senior employee, provided they have previously held the classification or have the present ability to perform the work. By bumping into a flexible work week assignment, the employee shall then be scheduled and compensated as a flexible week worker. This shall continue until the employee is recalled to their former position.

6.  
- - -

Holidays which fall on a non-scheduled work day shall be compensated. The employee will accordingly be compensated for six (6) days for five (5) days worked during such a week. The Company will not schedule Easter Sunday as part of a flexible work week schedule.

#### 26 - DIFFERENTIALS FOR LATE SHIFTS -----

1.  
- - -

A second shift is any eight (8) hour shift that begins no earlier than 2:00 p.m. and no later than 6:30 p.m. Employees required to work this shift shall be paid forty-five cents (\$.45) higher hourly rate for all hours worked than the rate paid for work in the same classification on the day shift.

2.  
- - -

A third shift is any eight (8) hour shift that begins no earlier than 10:00 p.m. and no later than 1:00 a.m. Employees required to work this shift shall be paid fifty-cents (\$.50) higher hourly rate for all hours worked than the rate paid for work in the same classification on the day shift.

#### 27 - WORK DAY AND WEEK -----

1.  
- - -

The work week shall consist of not more than forty (40) hours to be performed in not more than five (5) consecutive days of eight (8) hours each, Monday through Friday.

2.  
- - -

The work day shall consist of eight (8) consecutive hours, exclusive of the lunch period.

3.  
- - -

A day shift is any eight (8) hour shift that shall begin not earlier than 5:00 a.m. and not later than 8:00 a.m. Day employees required to report before 5:00 a.m. or required to work more than eight (8) hours or after 6:00 p.m. shall be paid at a premium rate of time and one-half (1-1/2) their regular hourly rate for all time worked outside the regular day shift schedule.

The Employer agrees that employees who are late may be docked but only to the extent of lateness. In no event will an employee be required to work during any dock period.

28 - DAILY GUARANTEES  
-----

Employees reporting for work at the regular starting time of their shifts, Monday through Friday, shall be afforded four (4) hours of work or pay, unless notified before the end of their previous shift not to report.

On snow days or hazardous weather days, if an employee reports to work, and is working; and the company closes the plant, the employee will receive a minimum of four (4) hours pay.

This Article shall not apply when the Employer is unable to afford four (4) hours of work or less because of an Act of God or other emergency.

29 - FUNERAL LEAVE  
-----

An employee who suffers the death of a spouse, mother, father, son, daughter, brother, or sister, will receive a leave of absence with pay for three (3) regularly scheduled work days. An employee who suffers the death of a grandfather or grandmother, will receive a leave of absence with pay for two (2) scheduled work days. An employee who suffers the death of a father-in-law or mother-in-law will receive a leave of absence with pay for one (1) scheduled work day. (A day's pay under this Article means eight (8) hours straight time pay. Normally scheduled work day for this Article shall mean any days scheduled for a basic forty (40) hour work week. Any day over the basic forty (40) hour work week shall not be part of this three (3) day leave of absence.)

Since the above leave of absence is intended as a time to complete necessary arrangements, and not a monetary gain, it will not apply to any vacation, partial vacation or any portion thereof.

30 - JURY DUTY  
-----

Employees on the active payroll for more than one (1) year shall be entitled to jury duty leave not to exceed two (2) weeks in a calendar year, but such jury duty leave shall not be allowed more than once in any two (2) consecutive calendar years. The Employer agrees to pay eligible employees for each day of jury service an amount equal to the difference between the employee's daily straight time earnings and the payment received for jury duty. This section shall not apply to any employee who voluntarily seeks jury service.

- PREMIUM RATES  
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1.  
- - -

For all hours worked by regular full time employees on Saturday, employees shall be paid at the rate of one and one-half (1-1/2) times the rate for the job.

2.  
- - -

For all hours worked by regular full time employees on holidays, employees shall be paid at the rate of one and one-half (1-1/2) times the rate for the job in addition to the pay for the holiday.

3.  
- - -

For all hours worked on Sunday, employees shall be paid at the rate of two (2) times the rate for the job.

4.  
- - -

All hours worked on any shift shall be deemed to be worked on the day the shift started.

5.  
- - -

For all hours worked in excess of eight (8) hours in a day, the employees shall be paid one and one-half (1-1/2) times their regular rate for the job. For all hours worked in excess of forty (40) hours per week, and for all hours worked in excess of thirty-two (32) hours per week in a week in which a holiday occurs during the normal work week, the employees shall be paid one and one-half (1-1/2) times their regular rate.

6.  
- - -

a. Overtime Work Monday through Friday -- When a need for overtime work develops, it shall be offered in the following order:

1. To those employees working on that specific line or job in seniority order;

2. To those employees permanently assigned to the building and classification in seniority order;
3. To those employees within the department (Paco Packaging or Paco Labs) able to perform the work required in seniority order.

If overtime on that specific line is scheduled for more than one (1) day, the Employer will do everything it reasonably can to move higher seniority people within that specific building on that specific shift within the classification to that line.

- b. Overtime Work Saturdays, Sundays and Holidays -- When a need for overtime develops, such work shall be offered in the following order:

The Employer will make every reasonable effort to distribute overtime equally among shifts.

1. To employees presently working and permanently assigned within the building, department and classification in seniority order;
2. To employees presently working and permanently assigned within the department and classification in seniority order;
3. To employees presently working within the building and classification who are transferred from the other department;
4. To employees able to perform the required work who are presently working and employed by the Employer in seniority order.

Notwithstanding anything to the contrary, employees who sign up for any temporary voluntary transfer requested by the Employer shall be offered Saturday, Sunday and Holiday work immediately following such offering made to employees permanently assigned to the classification and building in which such work is required (Step 1). Such offer of overtime work shall be made first to the employees voluntarily transferring within the department in which the work is required in the order of seniority and thereafter to the employees voluntarily transferring from the other department in seniority order.

It is expressly understood that the overtime schedule on non-rated jobs shall first be offered to the appropriate employees permanently assigned in the building where the work is to be done in seniority order and thereafter in seniority order based upon total departmental service. The Employer agrees that it will post all overtime postings in both Departments in all buildings when lists are not filled at the time of the original applicable posting.

Any regular employee or group working overtime shall not be given time off to offset overtime work.

The Employer has the right to schedule overtime work. The Union will do everything in its power to have a sufficient number of employees available to perform the job in overtime assignments. Although the parties recognize that individual overtime is voluntary, a failure to report for overtime accepted shall be cause for discipline. Furthermore, any concerted refusal to work overtime is a violation of this Agreement and shall subject each employee participating in the refusal to disciplinary action.

7. Premium and/or overtime rates shall not be pyramided.

8. The term Department is defined to mean Paco Packaging and/or Paco Labs.

9. In the event an employee works prior to his regular scheduled starting time, (early starts) he or she shall be paid at the rate of time and one-half (1-1/2) for all hours worked prior to his regular scheduled starting time and shall be guaranteed in addition the right to work his regular shift in accordance with this contract, but must work his regularly scheduled shift in order to qualify for the overtime pay, unless the failure to work such regular shift is due to the action of the employer in which case the employee will receive time and one-half (1-1/2) for the time worked on an early start. All such starts shall be voluntary. An early start shall be defined as a starting time prior to the time that the employee was regularly scheduled.

32 - HEALTH AND WELFARE

1. The Employer agrees to make payments to the Fund in the current month for such current month, i.e. payment for December benefit coverage to be received by Teamsters Local 35 Welfare Fund on or before that December Tenth (10th).
2. The Employer shall contribute the sum each month in accordance with the schedule set forth in Section 32.02 for each employee who has worked, or reported for work on one (1) day of such calendar month, except that no contributions shall be required for persons

until they have completed eighty (80) days worked.

3. If the employee is on lay-off status on the last day of the month, the payment for the next month will not be made until said employee returns to work.

4 Contributions set forth herein shall continue to be made by the Employer for three (3) calendar month for employees who are on sick leave or absent due to a compensable injury or illness.

2. - - -

1. Effective December 1, 1997, and continuing for the life of this Agreement, contributions shall be remitted in the following amounts and as revised pursuant to Section 32.04:

|    |   |          |
|----|---|----------|
|    |   | 12/1/97  |
|    |   | -----    |
| A. | Blue Cross/Blue Shield<br>(employee only)   | \$255.95 |
| B. | Blue Cross/Blue Shield<br>dependant contribution<br>(max. allowable when<br>applicable) | (40.00)  |
| C. | Dental Contribution (per<br>employee)   | 7.00     |
|    | TOTAL   | \$262.95 |
|    | -----   | -----    |

2. Employer shall provide life insurance coverage through a carrier of its choice and provide the premiums therefor on each employee's life as follows:

\$10,000.00 of Life Insurance

Upon separation of employment notwithstanding the reason, employees may elect to purchase this life insurance benefit by paying those premiums established by the carrier to maintain such benefits.

3. - - -

Contributions shall be remitted to the Fund no later than the tenth (10th) of each month for that calendar month. All remittances to the Fund shall be in a manner described by the Fund, and failure on the part of the Employer to comply shall be considered a violation of this Agreement and shall permit the Union to take any action including strike action after seventy-two (72) hours notice to the Employer of such intended action unless the Employer shall comply within said period except that the Union will hold the Employer harmless for any delay which is not the fault of the Employer.

4. - - -

The Union agrees to make an adjustment and reimbursement in the event rate decreases are effected by New Jersey Blue Cross and Blue Shield during the life of this Agreement. There shall be no modification in contract rates for coverages other than Blue Cross and Blue Shield during the life of this Agreement.

5. - - -

The Company agrees to provide Workman's Compensation Insurance as provided as provided by law and Temporary Disability Insurance from a provider or providers of its selection to the employees covered hereunder at no cost to such employee.

33 - HOLIDAY PAY  
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1. - - -

Eligibility qualifications for Holiday Pay:

1. Regular bargaining unit employees must have been in the employ of the Employer for at least sixty (60) working days prior to the Holiday.

2. These employees must work the full regularly scheduled plant work day immediately preceding and the full regularly plant work day immediately following the Holiday, except that active (i.e., not those on Leave of Absence, see Article 18) employees who are absent or leave early due to illness or injury, or other serious circumstance and are excused by the Company will receive eight (8) hours pay at straight time for such Holiday. Such excuse and pay shall not be unreasonably withheld. It is understood that an employee who is absent from work on the day before or following the Holiday shall be required to support same with a Doctor's certificate in order to be eligible for Holiday Pay.

In no event shall an employee be entitled to Holiday pay when such employee is absent for more than two (2) consecutive calendar weeks.

Holidays December 1, 1997 through November 30, 2000:

- |                                  |                           |
|----------------------------------|---------------------------|
| 1. New Year's Day                | 2. Good Friday            |
| 3. Easter Monday                 | 4. Memorial Day           |
| 5. Independence Day              | 6. Labor Day              |
| 7. Thanksgiving Day              | 8. Day after Thanksgiving |
| 9. Christmas Eve (as applicable) |                           |
| 10. Christmas Day                |                           |
| 11. Three (3) Sick/Personal Days |                           |

Employees will be permitted to use the Personal Days if twenty-four (24) hours notice is given to Management and approval granted. Such approval shall not be unreasonably withheld.

Employees will be eligible for the Sick Days with pay provided he or she notifies personnel on the day of absence and reports the reason for the absence.

On each December 31, the Company will allow as many employees as is practicable, who so desire, to use available leave (vacation or personal days) or to take that day off without pay if not entitled to such leave (and without consequences for an absence) based upon their seniority and business requirements.

#### 34 - VACATIONS

A. Vacations earned as of June 30th equal to or less than the Employer's scheduled shutdown period (falling within the period May 15th to September 15th) must be taken during the shutdown period. Any additional earned vacation must be taken during the period May 15th through May 14th of the following year. The date for determining number of years or months on the payroll for the purpose of subparagraph D of this Article shall be June 30th.

B. All vacation pay shall be calculated on the employees basic straight time hourly rate.

C. Vacation selection will be granted on a seniority (length of continuous on-the-job service) basis, so far as possible preference as to dates being given in the order of length of such service. Vacation schedules must be so arranged as not to interfere with the regular and efficient conduct of business of the Employer.

D. All employees who have been on the Employer's payroll for the periods indicated below, shall receive the indicated vacations and vacation pay at their current basic straight time hourly rate:

#### SERVICE VACATION

|                                     |   |            |
|-------------------------------------|---|------------|
| After 13 weeks but less than 1 year | - | 3 Days     |
| 1 Year but less than 2 Years        | - | 5 Days     |
| 2 Years but less than 3 Years       | - | 7 1/2 Days |
| 3 Years but less than 8 Years       | - | 2 Weeks    |
| 8 Years but less than 15 Years      | - | 3 Weeks    |
| 15 Years but less than 20 Years     | - | 4 Weeks    |
| 20 Years and longer                 | - | 5 Weeks    |

E. Employees whose vacations occur in a period in which a holiday falls shall receive an extra day's pay for the holiday.

F. No later than June 15th of each year of the Agreement, the Employer will notify employees as to whether the employees will have an additional day's pay or day off with pay in the event a holiday provided for in Article 33 falls within the scheduled shutdown.

G. All vacations shall be taken in time off except under extenuating circumstances. When an employee is laid off or his employment is terminated for any reason, either he or (in case of death) his beneficiary will be entitled to the vacation pay that had accrued at the time of separation.

H. The Employer may at his discretion designate a vacation period of up to but not more than two (2) weeks during the months of July and August after giving the employees at least three (3) month's notice.

#### 35 - SENIORITY

A. Seniority shall be computed from an employee's original date of hire unless broken for the following reasons:

1. Resignation;
2. Dismissal for cause;
3. Six (6) consecutive months of unemployment, unless upon approved leave of absence;
4. Failure to report when notified to return to work in accordance with Article 35(C);
5. Three (3) consecutive days of unexcused absence defined as three (3) or more consecutive working days without notification to the Employer during regular business hours, Monday through Friday, except under proven extreme circumstances.

6. Absence from work for any reason for 24 consecutive months, except if the absence is the subject of arbitration under the agreement.

B. Layoffs

-----

1. Temporary Layoff - A temporary layoff is a layoff for lack of work and shall be for a period no longer than one (1) week. Notice of a temporary layoff must be given to the Job Steward no later than the middle of the employee's shift preceding the day of layoff, or pay in lieu thereof, unless the layoff is caused by acts of God, power failure, or other reasons beyond the Employer's control.

Employees in the classification or classifications affected by a lack of work shall be laid off in reverse order of their seniority in accordance with Department seniority lists (Paco Packaging and Paco Laboratories). Thereafter, laid off employees shall have the right to bump into lower classifications within the building where the layoff occurred provided they have more seniority and previously held the classification or have the present ability to perform the work of such lower classification taking the rate of the classification, in which event employees having junior seniority in such lower classification shall be laid off. However, no employee affected by a temporary layoff and having bumping rights hereunder shall have the right to bump into a job other than a job in the building in which he is working at the time of temporary layoff.

2. Indefinite Layoff - An indefinite layoff is a layoff for lack of work for a period longer than one (1) week. Notice of an indefinite layoff must be given to the Job Steward forty-eight (48) hours in advance, or pay in lieu thereof, unless the layoff is caused by acts of God, power failure, or other reasons beyond the control of the Employer.

Employees in classification(s) affected by a lack of work shall be laid off in the reverse order of their seniority. Thereafter, those laid off employees shall have the right to bump into lower classifications provided they have more seniority and they have previously held the classifications or have the present ability to perform the work of such lower classification taking the rate for the classification, in which event employees with less seniority in such lower classification shall be laid off.

A laid off employee having bumping rights hereunder and who otherwise qualifies hereunder to bump into a classification on another shift or in another Department (Labs or Packaging) shall have forty-eight (48) hours from the receipt of Notice of Intent to Layoff to decide whether he/she desires to exercise such bumping right.

It is the intent of the parties to afford senior employees the privilege of bumping prior to layoff from work, and that no junior employees work while senior employees are actually laid off.

If an employee elects to take the indefinite layoff option, he or she shall remain on layoff until qualified under the recall provisions of this Article to recall to the shift or Department (Labs or Packaging) from which he or she was laid off; unless the Employer determines a need on another shift or Department (Labs or Packaging) whereupon the employee shall be recalled to such other shift or Department (Labs or Packaging) provided he or she qualifies under the recall provisions of this Article.

3. An indefinite layoff shall become a permanent layoff and a break in service shall occur when such layoff extends six (6) consecutive months.

4. Job Stewards, while serving in that capacity, shall receive top seniority in their classification for the purpose of layoff.

5. It is expressly understood that in no event shall an employee be permitted to bump to a higher rated classification or pay.

C. Recall - The Employer shall notify the employee when recalling and the employee must respond to said notice within forty-eight (48) hours of his intention to return within seventy-two (72) hours from the time of notice of recall.

When returning from layoff, employees shall be returned to their original job when that position becomes available.

When employees are recalled from layoff, they shall be recalled in the reverse order of layoff provided they are qualified to perform the required work.

In no event shall the Company hire new employees while there are employees on layoff.

36 - JOB OPENINGS

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Job openings are defined as but not limited to the following:

1. Permanent vacancies.
2. Additions to existing jobs.
3. New jobs declared by the Employer.

All such job openings shall be posted separately according to wage rates on appropriate bulletin boards in locations where employees eligible to bid are working.

A copy of such bid posting sheet shall be given to Union Stewards at the time of posting and the Employer will make a reasonable effort to notify employees on vacation.

Bid postings shall indicate the openings, department, building, classification, shift, wage rate and range and other information the Employer may have to assist the employees in the bid process.

Certain rated positions, as designated below, shall require an employee to satisfactorily complete a basic test in order to successfully bid for that rated position. An employee who has already satisfactorily completed that test will not be required to retest in response to other postings for other designated positions.

Employees currently in a rated position which requires the successful passing of that test will not be required to retest should they bid on another rated job so designated. The positions designated requiring a test to successfully bid include the following: Class 100 Sterile Room; Form, Fill, & Seal Operator; Label Machine Operator; Class 10000 Sterile Room; Bartelt & Pouch Fill Operator; Filler Operator; Line Leader; Vivus Class 100,000 Room; Carton Machine Operator; Slitter/Brown/Atlas Vac Operator; Pump Placer.

All bid sheets shall remain posted for a period of six (6) working days.

Employees may use departmental (Paco Packaging or Paco Laboratories) seniority to bid for any opening whether above, on a level with, or below their current wage rate by placing their name on the bid sheet.

The Employer agrees to provide copies of the bid sheet containing the names of bidders to Stewards when removing them from posting at the conclusion of the bid period.

Each posting shall be valid for a period of sixty (60) calendar days from the removal date. The same or additional openings offered must be rebid if not filled within said period.

The Employer shall have the right to fill such vacancies on a temporary basis for a period not exceeding three (3) weeks. The Employer agrees to fill the openings on a permanent basis of departmental (Paco Packaging or Paco Laboratories) seniority and ability to do the required work. Where ability is relatively equal between applicants, departmental (Paco Packaging or Paco Laboratories) seniority shall govern.

In the event there are no bidders within the appropriate Department, the Employer will make the same posting in the other Department (Paco Packaging or Paco Laboratories). Then, if there are no bidders, the Employer shall have the right to fill such openings with a new employee.

#### 37 - TRANSFERS

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1.  
- - -

To accomplish the work within the plants, the Employer may temporarily transfer employees from one classification to another for a period not to exceed three (3) weeks. When transferring employees, the Company will transfer less senior employees first.

2.  
- - -

An employee temporarily transferred to a higher, lower or equal classification shall receive the rate of his regular classification for time worked not to exceed three (3) weeks.

3.  
- - -

An employee temporarily transferred to a higher classification shall be credited with days worked in that classification. If the transferred person(s) bid(s) for a permanent opening in that same job classification at a later date and is successful, those credited days will be applied to reduce the thirty (30) day qualifying period.

4.  
- - -

An employee transferred must be returned to the position worked prior to the transfer at the conclusion of the transfer period, provided that position still exists.

5.  
- - -

Temporary openings no matter which shift or building are not covered by a six (6) day job bid requirement. The Employer shall not be required to post temporary transfers for bid. The Employer may, at any time, post an inquiry notice and transfer signers.

#### 38 - SUPERVISION

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It shall be the policy of the Employer to use production employees to perform all production operations. Therefore, no Supervisor or Foremen (except Maintenance Foremen) or others not included in the bargaining unit shall perform the duties normally assigned to employees in the bargaining unit, except for purposes of instruction, in cases of emergency which do not deprive regular employees of their regular work, including overtime, or for development and experimental work to determine production processes and costs.

Supervisors or Foremen or others not included in the bargaining unit who perform bargaining unit work as prohibited in this Section shall be in violation of the Agreement.

39 - PENSION

The Employer shall contribute the sum each month in accordance with the schedule set forth in part (a) hereinbelow for each employee who has worked or reported for work on one (1) day of such calendar month.

Such contributions shall be remitted to said Fund not later than the fifteenth (15th) of each month for that month thereafter for the life of this Agreement and continuing. To be eligible for Pension contributions an employee must have one (1) full year of service with the Company.

a. Effective beginning December 1, 1997 - \$35.00 per month per member. Effective beginning December 1, 1998 - \$45.00 per month per member. Effective beginning December 1, 1999 - \$55.00 per month per member.

b. Contributions shall continue to be made by the Employer for one (1) full calendar month after the actual month of layoff.

c. Contributions shall continue to be made by the Employer for a period of one full calendar month following the month in which sickness or accident occurs for employees on sick leave or workman's compensation.

All remittances to the Fund shall be in manner described by the Fund, and failure on the part of the Employer to comply shall be considered a violation of this Agreement and permit the Union to take any action including strike action after seventy-two (72) hours notice to the Employer of such intended action, unless the Employer shall comply within said period.

40 - PLANT RULES

1. - - -

The Union recognizes that it is necessary for the Employer to issue and post rules from time to time governing the conduct of employees and that it is the duty of each employee to familiarize himself with such rules and regulations. The Company shall have the right to post such rules and regulations provided they are not in violation of the contract.

2. - - -

No employee shall be required to produce a doctor's note until he or she has been absent for three (3) or more days.

41 - WAGES

Effective December 1, 1997 through November 30, 2000

A. NEW HIRES

Newly hired employees shall be paid in accordance with the following procedure:

1. Start Rate

Effective December 1, 1997 - \$6.05 per hour, or \$.15 above the minimum wage in effect.

2. After receiving the applicable start rate for thirty (30) calendar days, such employee will receive twenty cents (\$.20) additional per hour. After completing the probationary period, (Article 6, Section 6.01), such employee will receive an additional twenty-five cents (\$.25) per hour.

3. Thereafter, such employee will receive ten cents (\$.10) additional per hour for each forty (40) days worked until such employee reaches the top job rate of assembly worker.

4. The Employer reserves the right, in its discretion, to pay new hires at pay rates higher than those set forth herein, but not to exceed the base rate of any employee who is then currently employed and has completed the probationary period. Such action will be taken only if the Employer determines that it is unable to hire and/or retain qualified employees at the new hire rates set forth herein.

B. JOB CLASSIFICATIONS AND TOP RATES

A General Annual Wage Increase for all classifications covered for employees in such classifications and the top job rates on the dates indicated are:

December 1, 1997 - Thirty Cents (\$.30) December 1, 1998 - Thirty Cents (\$.30) December 1, 1999 - Thirty Cents (\$.30)

|                                 | 12/1/97 | 12/1/98 | 12/1/99 |
|---------------------------------|---------|---------|---------|
| "Non-Rated" Job Classifications |         |         |         |
| -----                           |         |         |         |
| Assembly Worker                 | 9.05    | 9.35    | 9.65    |

"Rated" Job classifications  
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|                                |       |       |       |
|--------------------------------|-------|-------|-------|
| 1. Form, Fill & Seal Operator  | 9.65  | 10.00 | 10.35 |
| 2. Carton Machine Operator     | 9.45  | 9.80  | 10.15 |
| 3. Carton Machine Loaders      | 9.25  | 9.60  | 9.95  |
| 4. Bartelt Pouch Fill Operator | 9.65  | 10.00 | 10.35 |
| 5. Label Machine Operator      | 9.35  | 9.70  | 10.05 |
| 6. Filler Operator             | 9.35  | 9.70  | 10.05 |
| 7. Pump Placer                 | 9.35  | 9.70  | 10.05 |
| 8. Overwrap/Shrinkwrap         | 9.35  | 9.70  | 10.05 |
| 9. Trimmer (Operator)          | 9.35  | 9.70  | 10.05 |
| 10. Clorox Fill Team           | 10.05 | 10.40 | 10.75 |
| 11. Secondary Heat Seal Feeder | 9.35  | 9.70  | 10.05 |
| 12. Class 100 Sterile Room     | 9.55  | 9.90  | 10.25 |
| 13. Line Leader                | 10.40 | 10.45 | 10.80 |
| 14. Class 10000 Sterile Room   | 9.35  | 9.70  | 10.05 |
| *15. Neck Bander Operator      | 9.35  | 9.70  | 10.05 |
| 16. Truck Driver               | 10.50 | 10.85 | 11.20 |
| 17. Company                    | 10.15 | 10.50 | 10.85 |
| 18. Stockperson                | 9.50  | 9.85  | 10.20 |
| 19. Forklift Operator          | 9.75  | 10.10 | 10.45 |
| 20. Slitter/Brown/Atlas Vac    | 9.40  | 9.75  | 10.10 |
| 21. Janitor/Matron             | 9.50  | 9.85  | 10.20 |
| 22. Auxiliary Line Checker     | 9.25  | 9.60  | 9.95  |
| 23. Class 100,000 Sterile Room | 9.55  | 9.90  | 10.25 |

\*Classifications designated by asterisk will continue as rated jobs only for so long as there are employees classified as of December 1, 1997 in such positions. These employees will continue to receive all general increases. However, the Company shall have no obligation to post or fill vacancies in those classifications after December 1, 1997 with that work to be assigned by the Company to any qualified employee who shall perform at their own current rate of pay.

#### C. PROGRESSION

1. Any employee who is currently paid at the top rate of his/her classification and is assigned a higher rated classification in accordance with the Labor Agreement shall receive the top rate of the classification to which they are assigned upon completion of thirty (30) days worked in that new classification.
2. Any employee who is not currently paid at the top rate of his/her classification and is assigned a higher rated classification in accordance with the Labor Agreement shall receive an increase which shall equal the difference between the top rate of his/her existing classification and upon completion of (30) days worked in that new classification. Such employee shall then receive a progression increase of ten cents (\$.10) per hour each forty (40) days worked until such employee reaches the top rate of his/her classification.
3. Any employee whose position was consolidated as a result of contract negotiations, and not already at the highest rate of pay shall receive progressive increases of ten cents (\$.10) per hour each forty (40) days worked until such employee reaches the top rate of his/her classification.
4. Any employee who shall have completed the probationary period shall receive the annual contract scale increases as they become effective in addition to any progression increases he or she may be entitled to and receive in accordance with this Section "C."

#### D. BONUS

1. In lieu of an attendance bonus, all active employees as of December 1, 1997 shall receive a lump sum bonus of \$450.00, less appropriate withholding taxes. Employees not actively at work as of December 1, 1997, who subsequently return to work from layoff, leave of absence, or other approved leave on or before March 1, 1998 shall be entitled to that bonus upon completion of thirty days of work.
2. A second bonus shall likewise be provided on or about December 1, 1998 also in the amount of \$450.00 less appropriate withholding taxes. Employees shall be entitled to that second bonus only if they were eligible for and received the bonus set forth in paragraph 1, above. Employees who received that first bonus, but not actively at work on December 1, 1998, who shall return to work from layoff, leave of absence or other approved leave by or before March 1, 1999 shall be entitled to that bonus upon completion of thirty days of work.

#### E. CREDIT UNION

The Employer agrees to payroll deductions for a credit union provided that it shall be at no additional cost to the Employer.

#### 42 - TERMS OF AGREEMENT

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This Agreement shall be in full force and effect from December 1, 1997 to and including November 30, 2000, and shall continue thereafter from year to year unless written notice of intention to change or modify by either part at least sixty (60) days prior to November 30, 2000, or the expiration of each contract year thereafter.

For the Union:

For the Employer:

By \_\_\_\_\_  
Gregory Lucidi  
President

By \_\_\_\_\_  
Bruce Decker  
General Manager

By \_\_\_\_\_  
Carol Beebe

By \_\_\_\_\_  
Richard O'Brien  
Director, Human Resources

## 1998 KEY EMPLOYEE INCENTIVE COMPENSATION PLAN

## SECTION 1

## GENERAL

1.1 Purpose. The Plan has been established by the Company (i) to attract and retain persons eligible to participate in the Plan; (ii) motivate participants, by means of appropriate incentives, to achieve long-range goals; and (iii) link participants' interests with those of the Company's other shareholders through compensation that is based on the Company's common stock, and thereby promote the continued growth and financial success of the Company.

1.2 Participation. Subject to the terms and conditions of the Plan, the Committee shall determine and designate, from time to time, from among the Eligible Employees, those persons who will be granted one or more awards under the Plan, and thereby become "Participants" in the Plan. Persons eligible to participate shall be limited to those officers and key employees of the Company who, in the opinion of the Committee, are in positions in which their decisions, actions, and counsel significantly affect the growth and financial success of the Company. Directors of the Company who are not otherwise officers or employees of the Company shall not be eligible to participate in the Plan.

1.3 Operation, Administration and Definitions. The operation and administration of the Plan, including the Awards made under the Plan, shall be subject to the provisions of Section 4 (relating to operation and administration). Capitalized terms in the Plan shall be defined as set forth in the Plan (including the definition provisions of Section 7).

## SECTION 2

## OPTIONS AND SARS

## 2.1 Definitions.

- a) The grant of an "Option" entitles the Participant to purchase shares of Common Stock at an Exercise Price established by the Committee. Options granted under this Section 2 may be either Incentive Stock Options or Non-Qualified Options, as determined in the discretion of the Committee. An "Incentive Stock Option" is an Option that is intended to satisfy the requirements applicable to an "incentive stock option" described in section 422A of the Code. A "Non-Qualified Option" is an Option that is not intended to be an "incentive stock option" as that term is described in section 422A of the Code.
- b) A stock appreciation right (an "SAR") entitles the Participant to receive, in cash or Stock (as determined in accordance with subsection 2.5), value equal to all or a portion of the excess of: (a) the Fair Market Value of a specified number of shares of Common Stock at the time of exercise; over (b) an Exercise Price established by the Committee.

2.2 Exercise Price. The "Exercise Price" of each Option and SAR granted under this Section 2 shall be established by the Committee or shall be determined by a method established by the Committee at the time the Option or SAR is granted; except that the Exercise Price shall not be less than 100 percent of the Fair Market Value of a share of Common Stock as of the Pricing Date. As used in this subparagraph the "Pricing Date" shall be the date on which the Option or SAR is granted, except that the Committee may provide that the Pricing Date is the date on which the recipient is hired or promoted (or similar event), if the grant of the Option or SAR occurs not more than 90 days after the date of such hiring, promotion or other event.

2.3 Exercise. An Option and an SAR shall be exercisable in accordance with such terms and conditions and during such periods as may be established by the Committee. The Committee shall have the power to permit in its discretion an acceleration of the previously determined exercise or vesting periods of, and the expiration of the applicable restriction period with respect to, any Option or SAR, under such circumstances, including a change in control of the Company, and upon such terms and conditions as it deems appropriate.

2.4 Expiration Date. The "Expiration Date" with respect to an Option means the date established as the Expiration Date by the Committee at the time of the grant; provided, however, that the Expiration Date with respect to any Option shall not be later than the earliest to occur of:

- a) the ten-year anniversary of the date on which the Option is granted (the five-year anniversary in the case of an Incentive Stock Option granted to an individual who owns stock possessing more than 10 percent of the total combined voting power of all classes of stock of the Company);
- b) if the Participant's Date of Termination occurs by reason of Retirement, death or disability, the one-year anniversary after such Termination Date; or
- c) if the Participant's Date of Termination occurs by reasons other than Retirement, death or disability, the 90-day anniversary of

such Date of Termination.

The existence of Retirement and the existence of and the date of disability shall be determined by the Committee in its sole discretion.

2.5 Payment of Option Exercise Price. The payment of the Exercise Price of an Option granted under this Section 2 shall be subject to the following:

- a) Subject to the following provisions of this subsection 2.5, the full Exercise Price for shares of Common Stock purchased upon the exercise of any Option shall be paid at the time of such exercise (except that, in the case of an exercise arrangement approved by the Committee and described in paragraph 2.5 (c), payment may be made as soon as practical after the exercise).
- b) The Exercise Price shall be payable in cash or by tendering shares of Common Stock (by either actual delivery of shares or by attestation, with such shares valued at Fair Market Value as of the date of exercise), or in any combination thereof, as determined by the Committee. Such determination may include a restriction on the use of any shares of Common Stock unless they have been held by the Participant for at least six months before delivery, and have not been used for another exercise during such period.
- c) The Committee may permit a Participant to elect to pay the Exercise Price upon the exercise of an Option by authorizing a third party to sell shares of Common Stock (or a sufficient portion of the shares) acquired upon exercise and remit to the Company a sufficient portion of the sale proceeds to pay the entire Exercise Price and any tax withholding resulting from such exercise.

2.6 Settlement of Award. Distribution following exercise of an Option or SAR, and shares of Common Stock distributed pursuant to such exercise, shall be subject to such conditions, restrictions and contingencies as the Committee may establish. Settlement of SARs may be made in shares of Common Stock (valued at their Fair Market Value at the time of exercise), or in any combination thereof, as determined by the Committee. The Committee, in its discretion, may impose such conditions, restrictions and contingencies with respect to shares of Common Stock acquired pursuant to the exercise of an Option or an SAR as the Committee determines to be desirable.

### SECTION 3

#### OTHER STOCK AWARDS

3.1 Definition. A Stock Award is a grant of shares of Common Stock or of a right to receive shares of Common Stock (or their cash equivalent or a combination of both) in the future.

3.2 Restrictions on Stock Awards. Each Stock Award shall be subject to such conditions, restrictions and contingencies as the Committee shall determine. These may include continuous service and/or the achievement of performance measures. At any time prior to the payment of the Stock Awards, the Committee may adjust previously established performance targets and other terms and conditions, including the Company's financial performance for Plan purposes, to reflect major unforeseen events such as changes in laws, regulations or accounting practice, mergers, acquisitions or divestitures or extraordinary, unusual or nonrecurring items or events.

### SECTION 4

#### OPERATION AND ADMINISTRATION

4.1 Effective Date. Subject to the approval of the shareholders of the Company at the Company's 1998 annual meeting of shareholders, the Plan shall be effective as of March 10, 1998 (the "Effective Date"); provided, however, that any Awards made under the Plan prior to its approval by shareholders shall be contingent on approval of the Plan by the shareholders of the Company. The Plan shall be unlimited in duration and, in the event of Plan termination, shall remain in effect as long as any Awards under it are outstanding; provided, however, that, no Award may be made under the Plan more than ten years from the Effective Date.

4.2 Shares Subject to the Plan. a)

- i) Subject to the following provisions of this subsection 4.2, the maximum number of shares that may be delivered to Participants and their beneficiaries under the Plan shall not exceed 1,500,000 shares of Common Stock. Such shares may be authorized and unissued shares or treasury shares.
- ii) Any shares of Common Stock granted under the Plan that are forfeited because of the failure to meet an Award contingency or condition shall again be available for delivery pursuant to new Awards granted under the Plan. To the extent any shares of Common Stock covered by an Award are not delivered to a Participant or beneficiary because the Award is forfeited or canceled, or the

shares are not delivered because the Award is settled in cash, such shares shall not be deemed to have been delivered for purposes of determining the maximum number of shares of Common Stock available for delivery under the Plan.

- iii) If the Exercise Price of any stock option granted under the Plan is satisfied by tendering shares of Common Stock to the Company (by either actual delivery or by attestation), only the number of shares issued net of the shares of Common Stock tendered shall be deemed delivered for purposes of determining the maximum number of shares of Common Stock available for delivery under the Plan.
- iv) Shares of Common Stock delivered under the Plan in settlement, assumption or substitution of outstanding awards (or obligations to grant future awards) under the plans or arrangements of another entity shall not reduce the maximum number of shares of Common Stock available for delivery under the Plan, to the extent that such settlement, assumption or substitution is a result of the Company or a Subsidiary acquiring another entity (or an interest in another entity).
- b) Subject to paragraph 4.2 (c), the following additional maximums are imposed under the Plan.
  - i) The maximum number of shares of Common Stock that may be issued by Options intended to be Incentive Stock Options shall be 1,500,000 shares.
  - ii) The maximum number of shares of Common Stock that may be covered by Awards granted to any one individual pursuant to Section 2 (relating to Options and SARs) shall be 200,000 shares during any calendar year.
  - iii) The maximum payment that can be made for awards granted to any one individual pursuant to Section 3 (relating to Stock Awards) shall be \$300,000 for any single or combined performance goals established for any performance period. If an Award granted under Section 3 is, at the time of grant, denominated in shares, the value of the shares of Common Stock for determining this maximum individual payment amount will be the Fair Market Value of a share of Common Stock on the date of award.

c) In the event of a corporate transaction involving the Company (including, without limitation, any stock dividend or distribution, stock split, recapitalization, reorganization, merger, consolidation, split-up, spin-off, combination or exchange of shares), the Committee may adjust Awards to preserve the benefits or potential benefits of the Awards. Action by the Committee may include adjustments of: (i) the number and kind of shares that may be delivered under the Plan; (ii) the number and kind of shares subject to outstanding Awards; and (iii) the Exercise Price of outstanding Options and SARs; as well as any other adjustments that the Committee determines to be equitable.

4.3 Limits on Distribution. Distribution of shares of Common Stock or other amounts under the Plan shall be subject to the following:

- a) Notwithstanding any other provision of the Plan, if at any time the Committee shall determine that (i) the listing, registration or qualification of the shares of Common Stock subject or related thereto upon any securities exchange or under any state or federal law, (ii) the consent or approval of any government regulatory body, or (iii) an agreement by the recipient of an Award with respect to the disposition of shares of Common Stock, is necessary or desirable as a condition of, or in connection with the Plan or the granting of such Award or the issue or purchase of shares of Common Stock thereunder, the Company shall have no liability to deliver any shares of Common Stock under the Plan or make any other distribution of benefits under the Plan unless such listing, registration, qualification, consent, approval or agreement shall have been effected or obtained free of any conditions not acceptable to the Committee.
- b) To the extent that the Plan provides for issuance of stock certificates to reflect the issuance of shares of Common Stock, the issuance may be effected on a non-certificate basis, to the extent not prohibited by applicable law or the applicable rules of any stock exchange.

4.4 Tax Withholding. Whenever the Company proposes or is required to issue or transfer shares of Common Stock under the Plan, the Company shall have the right to require the recipient to remit to the Company an amount sufficient to satisfy any Federal, state or local withholding tax requirements prior to the delivery of any certificate for such shares, or in the discretion of the Committee, the Company may withhold from the shares to be delivered shares sufficient to satisfy all or a portion of such tax withholding requirements. Whenever under the Plan payments are to be made in cash, such payments may be net of an amount sufficient to satisfy any Federal, state and local tax withholding requirements.

4.5 Dividends. An Award may provide the Participant with the right to receive dividends with respect to Common Stock, which may be either paid currently or credited to an account for the Participant, and may be settled in cash or Common Stock as determined by the Committee. Any such settlements, and any such crediting of dividends or reinvestment in shares of Common Stock, may be subject to such conditions, restrictions and contingencies as the Committee

shall establish.

4.6 Payments. Awards may be settled through cash payments, the delivery of shares of Common Stock, or combination thereof as the Committee shall determine. Any Award settlement may be subject to such conditions, restrictions and contingencies as the Committee shall determine.

4.7 Transferability. No Awards may be transferred by the Participant otherwise than by will, by the laws of descent and distribution or pursuant to a qualified domestic relations order, and during the Participant's lifetime the Option may be exercised only by him or her; provided, however, that the Committee, in its discretion, may allow for transferability of Non-Qualified Options by the Participant to "Immediate Family Members."

"Immediate Family Members" means children, grandchildren, spouse or common law spouse, siblings or parents of the Participant or to bona fide trusts, partnerships or other entities controlled by and of which the beneficiaries are Immediate Family Members of the Participant. Any Option grants that are transferable are further conditioned on the Participant and Immediate Family Members agreeing to abide by the Company's then current stock option transfer guidelines.

4.8 Form and Time of Elections. Unless otherwise specified herein, each election required or permitted to be made by a Participant or other person entitled to benefits under the Plan, and any permitted modification, or revocation thereof, shall be in writing filed with the Secretary of the Company or other person designated by the Committee at such times, in such form, and subject to such restrictions and limitations, not inconsistent with the terms of the Plan, as the Committee shall require.

4.9 Agreement with the Company. At the time of an Award to a Participant, the Committee may require a Participant to enter into an agreement with the Company (the "Agreement") in a form specified by the Committee, agreeing to the terms and conditions of the Plan and to such additional terms and conditions, not inconsistent with the Plan, as the Committee may, in its sole discretion, prescribe.

#### 4.10 Limitation of Implied Rights.

a) Neither a Participant nor any other person shall, by reason of the Plan, acquire any right in or title to any assets, funds or property of the Company or any Subsidiary whatsoever, including, without limitation, any specific funds, assets, or other property which the Company or any Subsidiary, in their sole discretion, may set aside in anticipation of a liability under the Plan. A Participant shall have only a contractual right to the stock or amounts, if any, payable under the Plan, unsecured by any assets of the Company or any Subsidiary. Nothing contained in the Plan shall constitute a guarantee that the assets of such companies shall be sufficient to pay any benefits to any person.

b) Nothing in the Plan or in any agreement entered into pursuant to the Plan shall confer upon any Participant the right to continue in the employment of the Company or any Subsidiary or affect any right which the Company or any Subsidiary may have to terminate the employment of such Participant.

4.11 Stock Forfeiture Provision. Notwithstanding any other provision of this Plan to the contrary, the Committee may provide for the forfeiture of Awards under the Plan and the benefits derived therefrom, in the event a Participant engages in conduct deemed to be harmful to, or not in the best interests of, the Company. Such forfeiture may include, without limitation, the cancellation of unexercised Options and the forfeiture of gain realized from the exercise thereof. Such provisions shall be included in the Option agreements approved from time to time by the Committee. The Committee, or its duly appointed agent, may waive any or all of the restrictions authorized under this subsection whenever it (or its duly appointed agent) determines in its sole discretion that such action is in the best interests of the Company.

### SECTION 5 COMMITTEE

5.1 Administration. The authority to control and manage the operation and administration of the Plan shall be vested in a committee (the "Committee") in accordance with this Section 5.

5.2 Selection of Committee. The Committee shall be selected by the Board, and shall consist of two or more members of the Board. The Committee shall be composed solely of directors who: (i) meet the requirements necessary to be considered "non-employee directors" as that term is defined in Rule 16b-3 of the Securities Exchange Act of 1934. In addition, no member of the Committee shall participate in any compensation decision under the Plan who is not, at the time of the decision, an "outside director" as that term is defined under Code section 162(m).

5.3 Powers of Committee. The authority to manage and control the operation and administration of the Plan shall be vested in the Committee, subject to the following:

a) Subject to the provisions of the Plan, the Committee will have the authority and discretion to select from among the Eligible Employees those persons who shall receive Awards, to determine the time or times of receipt, to determine the types of Awards and the number of shares covered by the Awards, to establish the terms, conditions, performance criteria, restrictions and other provisions of such Awards, and (subject to the restrictions imposed by Section 6) to cancel or suspend Awards. In making such

Award determinations, the Committee may take into account the nature of services rendered by the individual, the individual's present and potential contribution to the Company's success and such other factors as the Committee deems relevant.

- b) The Committee will have the authority and discretion to interpret the Plan, to establish, amend and rescind any rules and regulations relating to the Plan, to determine the terms and provisions of any agreements made pursuant to the Plan, and to make all other determinations that may be necessary or advisable for the administration of the Plan.
- c) Any interpretation of the Plan by the Committee and any decision made by it under the Plan is final and binding.

5.4 Delegation by Committee. Except to the extent prohibited by applicable law or the applicable rules of a stock exchange, the Committee may allocate all or any portion of its responsibilities and powers to any one or more of its members and may delegate all or any part of its responsibilities and powers to any person or persons selected by it. Any such allocation or delegation may be revoked by the Committee at any time.

#### SECTION 6

#### AMENDMENT AND TERMINATION

The Board may amend or terminate the Plan at any time, except that without shareholder approval, the Board may not increase the maximum number of shares which may be issued under the Plan (other than increases pursuant to Paragraph 4.2(c) hereof) or change the class of Eligible Employees. The termination or any modification or amendment of the Plan shall not, without the consent of a participant, affect a Participant's rights under an Award previously granted.

SECTION 7  
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DEFINED TERMS  
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For purposes of the Plan, the following terms shall have the meanings set forth below:

- a) "Award" means any award or benefit granted to any Participant under the Plan, including, without limitation, the grant of Options, SARs, and Stock Awards.
- b) "Board" means the Board of Directors of the Company.
- c) "Code" means the Internal Revenue Code of 1986, as amended. A reference to any provision of the Code shall include reference to any successor provision of the Code.
- d) "Common Stock" means shares of the Company's common stock, \$.25 par value per share.
- e) "Date of Termination" means the date on which a Participant ceases to be employed by the Company or any Subsidiary. In the event of employment termination due to Retirement, the Date of Termination shall be: (i) with respect to a Pension Optionee, the date on which such an optionee is immediately eligible to collect pension benefits under any Pension Plan; and (ii) with respect to a Non-Pension Optionee, a date determined by the Committee.
- f) "Eligible Employee" means any employee of the Company or a Subsidiary providing key services to the Company or a Subsidiary.
- g) "Fair Market Value" of Common Stock on any given date shall be determined according to the following rules:
  - i) If the Common Stock is at the time listed or admitted to trading on any stock exchange, then the "Fair Market Value" shall be the mean between the highest and lowest prices of the Common Stock on the date in question on the principal national securities exchange on which it is then listed or admitted to trading. If no reported sale of Common Stock takes place on the date in question on the principal exchange, then the reported closing asked price of the Common Stock on such date on the principal exchange shall be determinative of "Fair Market Value."
  - ii) If the Common Stock is not at the time listed or admitted to trading on a stock exchange, the "Fair Market Value" shall be the mean between the highest reported asked price and lowest reported bid price of the Common Stock on the date in question in the over-the-counter market, as such prices are reported in a publication of general circulation selected by the Committee and regularly reporting the market price of Common Stock in such market.
  - iii) If the Common Stock is not listed or admitted to trading on any stock exchange or traded in the over-the-counter market, the "Fair Market Value" shall be as determined in good faith by the Committee.
- h) "Pension Plan" means an individual pension scheme or pension plan sponsored by the Company or a Subsidiary.
- i) "Pension Optionee" means an optionee under the Plan who is an active participant in any Pension Plan and a "Non-Pension Optionee" means an optionee under the Plan who is not an active participant in any Pension Plan.
- j) "Subsidiary" means any "subsidiary corporation" (as that term is defined in Code section 424(f)) with respect to the Company.
- k) "Retirement" means: (i) with respect to a Pension Optionee, termination of employment with the Company or a Subsidiary under the provisions of any Pension Plan; and (ii) with respect to a Non-Pension Optionee, termination of employment with the Company or a Subsidiary under the procedures established by the Committee.

## FINANCIAL REVIEW

The West Company (the Company) manufactures and markets specialized products that satisfy the unique filling, sealing, dispensing and delivery needs of the healthcare and consumer products industries. Over 85% of the Company's revenues are generated by the healthcare markets. The Company's products include stoppers, closures, containers, medical device components and assemblies made from elastomers, metal and plastic. The Company also provides contract packaging and contract manufacturing services.

The following is management's discussion and analysis of the Company's operating results for the three years ended December 31, 1997 and its financial position as of year-end 1997. The information should be read in conjunction with the financial statements and accompanying notes appearing elsewhere in this report.

## RESULTS OF OPERATIONS

The Company's 1997 net income was \$44.4 million, or \$2.69 per share. This net income includes a \$7.9 million net tax benefit associated mainly with the tax reorganization of the Company's German subsidiaries in 1997. The 1996 net income of \$16.4 million, or \$1.00 per share, reflects a \$15 million net charge to income in the first quarter of 1996 related to a restructuring plan. Excluding the tax benefit in 1997 and restructuring charge in 1996, the Company's 1997 net income was \$36.5 million, or \$2.21 per share, which compares with 1996 net income of \$31.3 million, or \$1.91 per share, and 1995 net income of \$28.7 million, or \$1.73 per share.

In May 1995, the Company acquired Paco Pharmaceutical Services, Inc. (Paco), a provider of contract manufacturing and contract packaging services to pharmaceutical and consumer products companies in the United States and Puerto Rico. Paco's operating results have been consolidated since May 1, 1995. In December 1995, the Company purchased the remaining 49% minority interest in Schubert Seals A/S (Schubert). The terms of these transactions are described in the Note "Acquisitions and Investments" to the Consolidated Financial Statements.

During 1996 and 1997, the Company implemented a major restructuring plan adopted in the first quarter of 1996. The plan included downsizing or closing manufacturing

95

facilities. Three manufacturing facilities in Argentina, Puerto Rico and Germany were closed and the machinery business was sold. Facilities in Brazil and Pennsylvania were downsized and a development facility in Colorado was closed. An approximate 5% reduction in the workforce was completed. The total restructuring charge was \$21.5 million, approximately \$7.3 million of which represented severance and benefits. The remaining charge covered the facility closing costs and reduction to net realizable value of the facilities and equipment made excess by the restructuring actions. The restructuring plan is part of an overall strategy that includes enhanced technical capabilities and product offerings for customers. Specifically, the actions created focused, more efficient factories, and shifted certain production to lower-cost locations so that the Company can meet the demands of the healthcare industry for high quality, cost-effective products.

## NET SALES

Net sales were \$452.5 million in 1997, a decrease of \$6.3 million, or 1%, compared with net sales of \$458.8 million in 1996. Without the effect of the strong U.S. dollar, which reduced reported sales by about \$12.9 million, and without the 1996 machinery sales, a business sold in 1996, sales in 1997 were 2% higher. Contract service sales increased 13% in 1997 compared with 1996 largely as a result of stronger demand for Paco's contract packaging and manufacturing services, and because Paco supplied a larger portion of the materials used in 1997 production.

Sales of core products manufactured for the healthcare markets increased 1% (measured at constant exchange rates) in 1997 compared with 1996. Sales in domestic markets increased at modest growth rates reflective of the market, and the product mix was favorable. Sales in international markets were lower, and the product mix was unfavorable. Continued consumer and government pressure to control and even reduce the cost of healthcare delivery is transforming the healthcare markets. Customers have responded by establishing aggressive cost reduction programs and in certain instances reducing inventory levels. The Company's ability to increase prices is becoming more limited and competitive activity is increasing. Future results are becoming more difficult to predict in these circumstances, but the current forecast indicates that soft sales demand

96

will continue in the first half of 1998. The Company continues to focus on the needs of its customers with planned introductions of new services and products.

Sales to consumer markets decreased 4% compared with 1996. The decline occurred in the last quarter of 1997. The decrease in consumer sales is in part due to lower demand for Spout-Pak(R), a fitment for gable-carton juice containers, low demand for certain customers' products, and the loss of customers' replacement products to other suppliers. Spout-Pak' demand has been declining since mid-1997 when a competitive fitment was introduced. The Company is currently working with its customer on expansion into additional markets with a new fitment.

In 1996, net sales increased by 11%, or \$45.9 million, compared with 1995. Paco's sales were responsible for the majority of this sales increase. Reported Paco sales increased 84%, a combination of full year ownership and strong demand.

Sales of core healthcare products increased 7% (measured at constant exchange rates) in 1996 compared with 1995 due to a combination of price increases and higher demand. Volume increases were especially strong in European markets, although the product mix was less profitable. In domestic markets, volume increases were smaller, although the product mix showed a slight improvement. In other international markets served, increased sales mainly reflect higher demand.

Lower demand in certain consumer products markets, especially in the first half of 1996, resulted in a 10% decline in product sales to these markets compared to 1995. However, the Company did experience strong demand for Spout-Pak', with a volume increase of 10% compared with 1995. Machinery sales were flat compared with 1995, despite the sale of this business in the third quarter of 1996. Reported consolidated sales were reduced by about \$4.4 million due to the stronger U.S. dollar compared with most European currencies.

#### GROSS PROFIT

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The consolidated gross margin in 1997 was 29.2%, and gross profit was \$132.1 million. These results compare with a 27.5% gross margin and gross profit of \$126.1 million in 1996.

Margins on core healthcare product sales increased again by more than one percentage point. Margins in domestic markets improved significantly due to cost savings initiatives, which more than offset inflation, and to a more profitable product mix. However, margins in international markets were lower due to lower sales volume and a less profitable product mix.

Paco gross margins doubled due to sales volumes and efficiencies achieved. The management of Paco was strengthened, and Paco's equipment is being upgraded to attract higher-margin, longer-running sales opportunities.

Margins on consumer product sales increased, despite the lower sales volume, due to lower resin raw material costs which are passed through to the customer in lower prices and cost savings initiatives.

The gross margin of 27.5% in 1996 represented a decline from the 28.6% margin achieved in 1995. However, gross profit increased 4.8% to \$126.1 million. The margin decline reflected the impact of the full year consolidation of the lower-margin service operations provided by Paco. Margins on core health care product sales increased by more than one percentage point due primarily to price increases. Excluding price increase impacts, margins on health care product sales were about equal to 1995. Volume increases and programs to create centers of manufacturing excellence to improve the cost structure and increase efficiencies offset inflation and the less favorable product mix.

Margins on Paco sales declined year-over-year due in part to low-priced contracts that had been negotiated prior to acquisition and to inefficient operations especially in the first half of the year.

Margins on consumer plastic sales increased, despite the lower volume, due to cost saving initiatives, lower U.S. employee fringe benefit costs and product mix. The machinery business generated a small gross profit in 1996 compared with a loss in 1995.

#### EXPENSES

Selling, general and administrative expenses as a percentage of sales were 15.5% in 1997, 15.9% in 1996, and 16.9% in 1995.

Selling, general and administrative expenses totaled \$70.2 million in 1997, \$72.8 million in 1996, and \$69.9 million in 1995. The 4% decrease in these expenses in 1997 compared with 1996 was primarily the result of lower pension costs due to higher income on pension plan assets and the impact of the stronger U.S. dollar. These decreases more than offset the following factors: inflationary cost increases, increased bad debt expense primarily related to the bankruptcy of a customer and higher expenses in Asia Pacific due to the recent financial crisis in that market, an increase in estimated expenses associated with environmental remediation activity, and higher spending related to drug delivery system development.

The 4% increase in these expenses in 1996 compared with 1995 were primarily the result of the following three factors: the accrual of 1996 incentive compensation compared with no incentive compensation payment being earned for 1995, the consolidation of four additional months of operations of Paco, and inflationary cost increases. These increases were offset, in part, by a reduction in headcount related to the 1996 restructuring plan, lower U.S. employee fringe benefit costs, lower claim costs and the impact of a stronger U.S. dollar.

Transactions included in the other income category netted to income of \$1.1 million in 1997, \$.9 million in 1996, and \$1.5 million in 1995. Interest income, included therein, totaled \$2.0 million in 1997, \$1.3 million in 1996, and \$2.0 million in 1995. In the most recent two years, cash balances available for investment have increased significantly. Historically, interest income was generated mainly in Brazil but has declined since mid-1994 when Brazil adopted an economic plan designed to reduce inflation and stabilize the currency, consequently reducing interest rates. Beginning in 1998, the Company's subsidiary in Brazil will no longer be accounted for as operating in a hyperinflationary economy since its cumulative inflation rate has dropped dramatically over the past three years. In addition, in 1995 the Company had a high level of advances to customers, related to new product programs, which have been repaid. Also included in this category are foreign currency translation and transaction losses totaling \$.1 million in both 1997 and 1996, and \$1.4 million in 1995. The large loss in 1995 reflects accounting in the higher-inflation countries of South America, mainly Brazil where the economic plan noted earlier has reduced translation losses. Foreign currency transaction gains in 1997 of \$.1 million, \$.2 million in 1996, and \$.6 million in 1995

reflect realignment of European currencies. Net losses on real estate and investments totaled \$.7 million in 1997, and \$.2 million in both 1996 and 1995. Losses on disposition of obsolete equipment were lower in 1997 after having increased in 1996.

#### INTEREST

Interest costs totaled \$6.0 million in 1997 compared with \$7.3 million in 1996 and \$7.8 million in 1995, of which \$.4 million, in 1997 and 1996 and \$.5 million in 1995 were capitalized as part of the cost of capital asset acquisitions.

The average consolidated debt level decreased in both 1997 and 1996. Higher debt levels in 1995 reflect the acquisitions made in 1995 and 1994. Interest rates also were lower in both 1997 and 1996 compared with the prior year.

#### INCOME TAXES

The effective tax rate on consolidated income was 23.2% in 1997, 41.8% in 1996 and 32.8% in 1995.

The low tax rate for 1997 was significantly affected by two events; 1) a tax reorganization of the Company's German subsidiaries which resulted in a significant increase in tax basis for the assets of these entities and resulted in tax credit refunds, and 2) repatriation of cash dividends from certain subsidiaries. The net impact of these events was a net \$7.9 million tax benefit. The net benefit was originally recorded in the third quarter at the time of the events. Subsequent tax law changes and completion of a tax audit in December 1997 reduced the benefit recorded in the third quarter. Excluding this benefit, the 1997 effective tax rate is 37%, which includes the impact of an increase in the statutory tax rate of France, enacted in the fourth quarter.

The higher 1996 tax rate reflects the low tax benefit on certain components of the restructuring charge. Excluding the restructuring charge and the applicable tax benefits, the 1996 effective tax rate would have been 36.6%.

Two factors were the primary cause of the low tax rate in 1995. First, the Company changed its tax accounting method for Puerto Rico operations in accordance with a U.S. Internal Revenue Service Procedure released late in 1994.

The change related to the calculation of transfer pricing and applied retroactively as well as prospectively. The impact of the tax change resulted in a 3.3 percentage point decline in the effective tax rate. Second, the Company recorded the benefit of tax credits which were assured realization, reducing the tax rate by 1.7 percentage points. These benefits were offset somewhat by an increase in the statutory tax rate in France, requiring adjustment of deferred tax balances and increasing the effective rate by .6 of a percentage point. Excluding the impacts of these adjustments associated mainly with prior year tax accruals, the 1995 effective tax rate would have been approximately 36%.

## MINORITY INTERESTS AND EQUITY IN AFFILIATES

Minority interests in net income of subsidiaries are insignificant since the Company's late 1995 purchase of the remaining minority interest in Schubert. Only a small minority ownership interest in a subsidiary in Spain remains.

Income from investments in affiliated companies totaled \$.5 million in 1997, \$1.5 million in 1996, and \$.9 million in 1995. The decrease in 1997 mainly reflects much lower operating margins at Daikyo Seiko, Ltd., a Japanese company in which the Company owns a 25% equity stake, and net expenses related to the Company's investment in DanBioSyst UK Ltd., a contract research firm specializing in drug delivery systems. The decline in Daikyo's contribution reflects significant new plant investment and higher administrative costs related to a newly-introduced product line, Resin CZ(R) vials, and a weaker Japanese yen. The investment in DanBioSyst was recognized on an equity basis for the first time in 1997.

The increase in affiliate contributions in 1996 was mainly the result of higher sales and improved margins for Daikyo. The 1996 improvements were offset, in part, by the September 30, 1995 sale of the Company's 40% partnership interest in Schott West Pharmaceutical Glass Company and a weaker Japanese yen. Results of the Company's investment in affiliates in Mexico were lower in 1997 due to sales declines but were improved in 1996 compared with 1995 due to lower currency translation losses.

## FINANCIAL POSITION

The Company believes that its financial position and current capitalization indicate an ability to finance substantial future growth. Cash flow from operations totaled \$67.7 million in 1997. Working capital at December 31, 1997, totaled \$112.7 million, a ratio of current assets to current liabilities of 2.9 to 1, and includes a cash balance of \$52.3 million. Debt to total invested capital (total debt, minority interests and shareholders' equity) was 24.2%; the outstanding debt balance was \$89 million at December 31, 1997, compared with \$98.4 million at year-end 1996.

The cash flow from operations of \$67.7 million, combined with cash from exercise of employee stock options totaling \$4 million, funded \$34.4 million of 1997 capital

expenditures, \$1.7 million of debt reduction and \$9.4 million of cash dividends to shareholders (\$.57 per share). The balance is reflected in a \$25 million increase in cash and cash investments.

The Company has two revolving credit facilities which were amended and increased in 1997. The first facility now provides for borrowings up to \$70 million and has a term of 364 days, renewable at the lender's option. The second facility provides for borrowings up to \$55 million through August 2002. At year-end 1997, the Company had \$70 million and \$32.9 million available under the short-term and long-term facilities, respectively. In addition, unused short-term committed credit facilities totaling \$21 million and unused long-term credit facilities totaling \$9 million at December 31, 1997, were available to subsidiaries.

The asset turnover ratio declined slightly to .95 in 1997 due to the sales decrease. Return on average shareholders' equity was 16.7% for 1997, increasing significantly over the 1996 return of 6.5%. The unusual restructuring charge and tax benefit recorded in 1996 and 1997, respectively, are the reasons for the significant difference.

#### 1998 REQUIREMENTS

Cash requirements for capital projects in 1998 are estimated at \$45 million. These projects focus on cost reduction and quality improvements through technology upgrades and product and process standardization. New product tooling and equipment and facilities to support the development of drug delivery systems also are planned. Acquisition and implementation of new information management systems will continue, as will maintenance and improvements to the existing production capacity.

The Company is in the process of addressing the impact of the Year 2000 on the conduct of the business. The Company has been implementing a plan over the past two years and expects the work to continue into 1999. New software applications have been installed or are in implementation stage which address Year 2000 compliance in the Company's information systems. Other potential exposure areas are being addressed throughout the Company. Equipment is being reviewed with vendors and internal tests are being conducted on critical items of equipment. Non-compliant equipment is expected to be repaired by year end 1998 or replaced before year end 1999. All principal material, supply and equipment vendors have been contacted to

determine their progress. Government agencies, financial institutions and other service providers are being contacted to determine the programs that are being followed with certification sought from all providers indicating their completion of Year 2000 programs. The Company believes that it is addressing all of the areas critical to its ability to conduct business in the future without interruption due to the Year 2000. Significant time is being spent to install compliant software but in most instances the system is being implemented mainly for its improved functionality. Internal resources are being used in other areas to carry out the Year 2000 program and the Company does not anticipate any other significant costs related to these activities.

In accordance with the Company's foreign exchange management policy, the adverse consequences resulting from foreign currency exposure are mitigated in part by engaging in certain hedging activities. Foreign exchange forward contracts are used to minimize exposure related to foreign currency transactions and commitments for raw material purchases. The Company has entered into interest rate swap agreements to minimize risk to interest rate increases. The Note "Financial Instruments" to the Consolidated Financial Statements explains the impact of such hedges and interest rate swaps on the Company's results of operations and financial position.

Cash requirements for remedial activity related to environmental cleanup are not expected to exceed \$1 million in 1998. In 1997, payments related to environmental cleanup totaled \$.4 million. The Company has been indemnified by other financially responsible parties against future government claims relating to groundwater contamination at a Puerto Rico site, and the Company does not anticipate any remedial expenses with respect to this site.

In 1998, in addition to cash flow from operations, the Company expects proceeds from employee stock option exercises to equal the average of the past several years. Management believes these sources of cash, available credit facilities and the Company's current capitalization provide sufficient flexibility to meet future cash flow requirements and pursue its stated acquisition strategy.

Statements about anticipated 1998 earnings and the timing and nature of contributors to 1998 results are forward-looking statements that involve risks and uncertainties. The following important factors have affected, and in

the future could effect, the Company's actual results and could cause the Company's results to differ materially from those expressed in any forward looking statements made by, or on behalf of, the Company. These, include but are not limited to, sales demand, the timing of customers' product introductions, competitive pressures, the strength or weakness of the U.S. dollar, inflation, the cost of raw materials, successful continuance of cost-improvement programs, the potential dilution from acquisitions of other businesses, and the cost of borrowing funds.



CONSOLIDATED STATEMENTS OF INCOME  
THE WEST COMPANY, INCORPORATED AND  
SUBSIDIARIES FOR THE YEARS  
ENDED DECEMBER 31, 1997, 1996 AND 1995  
(in thousands, except per share data)

|  | 1997      |      | 1996      |      | 1995      |      |
|--|-----------|------|-----------|------|-----------|------|
| Net sales  | \$452,500 | 100% | \$458,800 | 100% | \$412,900 | 100% |
| Cost of goods sold                                   | 320,400   | 71   | 332,700   | 73   | 294,700   | 71   |
| Gross profit   | 132,100   | 29   | 126,100   | 27   | 118,200   | 29   |
| Selling, general and<br>administrative expenses      | 70,200    | 16   | 72,800    | 16   | 69,900    | 17   |
| Restructuring charge                                 | --        | --   | 21,500    | 5    | --        | --   |
| Other income, net                                    | (1,100)   | (1)  | (900)     | (1)  | (1,500)   | --   |
| Operating profit                                     | 63,000    | 14   | 32,700    | 7    | 49,800    | 12   |
| Interest expense                                     | 5,600     | 1    | 6,900     | 1    | 7,300     | 2    |
| Income before income taxes and<br>minority interests | 57,400    | 13   | 25,800    | 6    | 42,500    | 10   |
| Provision for income taxes                           | 13,300    | 3    | 10,800    | 2    | 13,900    | 3    |
| Minority interests                                   | 200       | --   | 100       | --   | 800       | --   |
| Income from consolidated operations                  | 43,900    | 10%  | 14,900    | 4%   | 27,800    | 7%   |
| Equity in net income of<br>affiliated companies      | 500       | --   | 1,500     | --   | 900       | --   |
| Net income   | \$ 44,400 |      | \$ 16,400 |      | \$ 28,700 |      |
| Net income per share:                                |           |      |           |      |           |      |
| Basic  | \$ 2.69   |      | \$ 1.00   |      | \$ 1.73   |      |
| Assuming Dilution                                    | \$ 2.68   |      | \$ .99    |      | \$ 1.71   |      |

|                                   |        |        |        |
|-----------------------------------|--------|--------|--------|
| Average Common Shares Outstanding | 16,475 | 16,418 | 16,557 |
| Average Shares Assuming Dilution  | 16,572 | 16,500 | 16,705 |

CONSOLIDATED BALANCE SHEETS  
THE WEST COMPANY, INCORPORATED AND SUBSIDIARIES  
AT DECEMBER 31, 1997 AND 1996

(in thousands, except per share data)

| ASSETS   | 1997      | 1996      |
|--|-----------|-----------|
|  | -----     | -----     |
| Current assets:  |           |           |
| Cash, including equivalents (1997--\$41,700; 1996--\$10,400)       | \$ 52,300 | \$ 27,300 |
| Accounts receivable, less allowance (1997--\$3,000; 1996--\$1,900) | 60,400    | 69,300    |
| Inventories  | 38,300    | 44,000    |
| Current deferred income tax benefit                                | 9,400     | 10,200    |
| Other current assets   | 10,300    | 5,900     |
|  | -----     | -----     |
| Total current assets   | 170,700   | 156,700   |
|  | -----     | -----     |
| Property, plant and equipment                                      | 428,600   | 431,600   |
| Less accumulated depreciation and amortization                     | 226,400   | 221,300   |
|  | -----     | -----     |
| Investments in affiliated companies                                | 202,200   | 210,300   |
| Goodwill   | 22,700    | 24,100    |
| Deferred charges and other assets                                  | 51,600    | 58,900    |
|  | 30,700    | 27,400    |
|  | -----     | -----     |
|  | \$477,900 | \$477,400 |
|  | -----     | -----     |

LIABILITIES AND SHAREHOLDERS' EQUITY

Current liabilities:

|                                   |        |          |
|-----------------------------------|--------|----------|
| Current portion of long-term debt | \$ 700 | \$ 1,000 |
| Notes payable                     | 900    | 1,900    |
| Accounts payable                  | 18,600 | 23,900   |
| Accrued expenses:                 |        |          |
| Salaries, wages and benefits      | 13,400 | 13,900   |
| Income taxes payable              | 5,400  | 3,100    |
| Other                             | 19,000 | 21,800   |

Total current liabilities 58,000      65,600

Long-term debt, excluding current portion 87,400      95,500

Deferred income taxes 30,100      39,700

Other long-term liabilities 24,300      24,300

Minority interests 400      300

Shareholders' equity:

Preferred Stock, shares authorized: 3,000;

    shares issued and outstanding: 1997-0; 1996-0

Common Stock, par value \$.25 per share; shares authorized: 50,000;

    shares issued: 1997--16,845; 1996--16,845;

    shares outstanding: 1997--16,568; 1996--16,383 4,200      4,200

Capital in excess of par value 24,000      24,000

Cumulative foreign currency translation adjustments 3,400      16,300

Unrealized holding gains (losses) on securities, net 100      400

Retained earnings 252,500      217,700

284,200      262,600

Less Treasury Stock (1997--277 shares; 1996--462 shares) 6,500      10,600

Total shareholders' equity 277,700      252,000

\$477,900      \$477,400

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY  
THE WEST COMPANY, INCORPORATED AND SUBSIDIARIES FOR THE YEARS ENDED  
DECEMBER 31, 1997, 1996 AND 1995  
(in thousands, except per share data)

|  | Common<br>Stock | Capital in<br>excess of<br>par value | Other    | Retained<br>earnings | Treasury<br>Stock | Total     |
|--|-----------------|--------------------------------------|----------|----------------------|-------------------|-----------|
| Balance, January 1, 1995                     | \$4,200         | \$23,200                             | \$17,100 | \$189,800            | \$(7,000)         | \$227,300 |
| Net income                                   |                 |                                      |          | 28,700               |                   | 28,700    |
| Shares issued under stock plans              |                 | 300                                  |          |                      | 2,800             | 3,100     |
| Cash dividends declared (\$.50 per share)    |                 |                                      |          | (8,300)              |                   | (8,300)   |
| Foreign currency translation adjustments     |                 |                                      | 3,000    |                      |                   | 3,000     |
| Unrealized gains (losses) on securities, net |                 |                                      | 300      |                      |                   | 300       |
| Balance, December 31, 1995                   | 4,200           | 23,500                               | 20,400   | 210,200              | (4,200)           | 254,100   |
| Net income                                   |                 |                                      |          | 16,400               |                   | 16,400    |
| Shares issued under stock plans              |                 | 400                                  |          |                      | 3,200             | 3,600     |
| Shares issued for acquisition                |                 | 100                                  |          |                      | 400               | 500       |
| Shares repurchased                           |                 |                                      |          |                      | (10,000)          | (10,000)  |
| Cash dividends declared (\$.54 per share)    |                 |                                      |          | (8,900)              |                   | (8,900)   |
| Foreign currency translation adjustments     |                 |                                      | (3,800)  |                      |                   | (3,800)   |
| Unrealized gains (losses) on securities, net |                 |                                      | 100      |                      |                   | 100       |
| Balance, December 31, 1996                   | 4,200           | 24,000                               | 16,700   | 217,700              | (10,600)          | 252,000   |

|  |          |           |          |           |                      |
|--|----------|-----------|----------|-----------|----------------------|
| Net income                                   |          |           | 44,400   |           | 44,400               |
| Shares issued under stock plans              |          |           |          | 4,100     | 4,100                |
| Cash dividends declared (\$.58 per share)    |          |           | (9,600)  |           | (9,000)              |
| Foreign currency translation adjustments     |          | (12,900)  |          |           | (12,900)             |
| Unrealized gains (losses) on securities, net |          |           | (300)    |           | (300)                |
|  | -----    |           |          |           |                      |
| Balance, December 31, 1997                   | \$ 4,200 | \$ 24,000 | \$ 3,500 | \$252,500 | \$ (6,500) \$277,700 |
|  | -----    |           |          |           |                      |

The accompanying notes are an integral part of the financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS  
THE WEST COMPANY, INCORPORATED AND SUBSIDIARIES  
FOR THE YEARS ENDED DECEMBER 31, 1997, 1996 AND 1995

(in thousands)

|  | 1997     | 1996     | 1995      |
|--|----------|----------|-----------|
| Cash flows from operating activities:                                      |          |          |           |
| Net income   | \$44,400 | \$16,400 | \$28,700  |
| Adjustments to reconcile net income to net cash from operating activities: |          |          |           |
| Depreciation and amortization  | 31,900   | 30,700   | 29,600    |
| Restructuring charge   | -        | 21,500   | -         |
| Loss on sales of real estate and investments                               | 700      | 200      | 200       |
| Deferred income taxes  | (7,500)  | (5,700)  | 2,000     |
| Pension and other retirement plans   | (4,100)  | (600)    | 1,400     |
| Equity in undistributed earnings of affiliated companies, net              | (100)    | (1,100)  | (700)     |
| Decrease (increase) in accounts receivable                                 | 1,000    | (3,400)  | 1,400     |
| Decrease (increase) in inventories   | 2,700    | (2,700)  | (4,500)   |
| Decrease (increase) in other current assets                                | 400      | (300)    | 500       |
| (Decrease) increase in other current liabilities                           | (1,300)  | 5,900    | (13,100)  |
| Other operating items  | (400)    | 2,500    | 600       |
| Net cash provided by operating activities                                  | 67,700   | 63,400   | 46,100    |
| Cash flows from investing activities:                                      |          |          |           |
| Property, plant and equipment acquired                                     | (34,400) | (31,700) | (31,300)  |
| Proceeds from sales of assets  | 1,700    | 7,200    | 4,500     |
| Payments for acquisitions, net of cash acquired                            | -        | (1,600)  | (72,200)  |
| Customer advances, net of repayments                                       | (300)    | 1,600    | (1,600)   |
| Net cash used in investing activities                                      | (33,000) | (24,500) | (100,600) |

|   |          |          |          |
|---|----------|----------|----------|
| Cash flows from financing activities:                       |          |          |          |
| Borrowings under long-term revolving credit agreements, net | 200      | 1,500    | 20,200   |
| Proceeds from other long-term debt                          | -        | -        | 50,800   |
| Repayment of long-term debt                                 | (1,200)  | (9,000)  | (27,300) |
| Notes payable, net  | (700)    | (6,200)  | 5,500    |
| Issuance of Common Stock, net                               | 4,000    | 3,500    | 2,800    |
| Dividend payments   | (9,400)  | (8,700)  | (8,100)  |
| Purchase of treasury stock                                  | -        | (10,000) | -        |
|   | -----    | -----    | -----    |
| Net cash (used in) provided by financing activities         | (7,100)  | (28,900) | 43,900   |
|   | -----    | -----    | -----    |
| Effect of exchange rates on cash                            | (2,600)  | (100)    | 800      |
|   | -----    | -----    | -----    |
| Net increase (decrease) in cash and cash equivalents        | 25,000   | 9,900    | (9,800)  |
| Cash and cash equivalents at beginning of year              | 27,300   | 17,400   | 27,200   |
|   | -----    | -----    | -----    |
| Cash and cash equivalents at end of year                    | \$52,300 | \$27,300 | \$17,400 |
|   | -----    | -----    | -----    |
| Supplemental cash flow information:                         |          |          |          |
| Interest paid net of amounts capitalized                    | \$ 5,700 | \$ 6,200 | \$ 6,300 |
| Income taxes paid   | \$20,000 | \$14,300 | \$12,800 |
|   | -----    | -----    | -----    |

The accompanying notes are an integral part of the financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
(in thousands, except share and per share data)

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**BASIS OF PRESENTATION:** The financial statements are prepared in conformity with generally accepted accounting principles in the United States. These principles require management to make estimates and assumptions that affect the reported amounts of assets and liabilities and revenue and expenses and the disclosure of contingencies in the financial statements. Actual amounts realized may differ from these estimates.

**PRINCIPLES OF CONSOLIDATION:** The consolidated financial statements include the accounts of the Company and all majority-owned subsidiaries. Material intercompany transactions and accounts are eliminated in consolidation. Investments in affiliated companies in which ownership exceeds 20% are accounted for on the equity method.

**STATEMENT OF CASH FLOWS:** Cash flows from operating activities are reported under the indirect method; cash equivalents include time deposits, certificates of deposit and all highly liquid debt instruments with original maturities of three months or less.

**INVENTORIES:** Inventories are valued at the lower of cost or market. The cost of inventories located in the United States is determined on the last-in, first-out (LIFO) method, except for the cost of inventories of Paco Pharmaceutical Services, Inc. (Paco), a wholly owned subsidiary, which is determined on the first-in, first-out (FIFO) method. The cost of inventories located outside the United States is determined principally on the average cost method.

**FOREIGN CURRENCY TRANSLATION:** Foreign currency transaction gains and losses and translation gains and losses of subsidiaries operating in high-inflation economies are recognized in the determination of net income. Foreign currency translation adjustments of other subsidiaries and affiliates operating outside the United States are accumulated as a separate component of shareholders' equity.

**FINANCIAL INSTRUMENTS:** The Company uses interest rate swaps and forward exchange contracts to minimize the economic exposure related to fluctuating interest and foreign exchange rates. Amounts to be paid or received under interest rate swaps are accrued as interest expense, and presented in the financial statements on a net basis. Gains and losses on hedges of existing assets and liabilities are recognized monthly and offset gains and losses on the underlying transaction. Gains and losses related to

firm commitments, primarily raw material purchases including local needs in foreign subsidiaries, are deferred and recognized as part of the underlying transaction.

**MARKETABLE SECURITIES:** The Company classifies its investments in debt and marketable securities under one of three categories: held-to-maturity, available-for-sale and trading. Unrealized gains and losses on securities available-for-sale are recorded in stockholders' equity and are not material.

**PROPERTY, PLANT AND EQUIPMENT:** Property, plant and equipment are carried at cost. Maintenance and minor repairs and renewals are charged to expense as incurred. Upon sale or retirement of depreciable assets, costs and related depreciation are eliminated, and gains or losses are recognized in the determination of net income.

The Company continually evaluates the appropriateness of the remaining estimated useful life and the carrying value of its operating assets, goodwill and other intangible assets. Carrying values in excess of undiscounted estimates of related cash flows are expensed when such determination is made.

**DEPRECIATION AND AMORTIZATION:** For financial reporting purposes, depreciation is computed principally on the straight-line method over the estimated useful lives of the assets, or the remaining term of the lease, if shorter. For income tax purposes, depreciation is computed using accelerated methods. Goodwill is being amortized on the straight-line method over periods ranging from 15 to 40 years.

**RESEARCH AND DEVELOPMENT:** Research, development and engineering expenditures for the creation and application of new or improved products and processes, which amounted to \$12,000 in 1997 and \$11,200 in 1996 and \$12,000 in 1995, are expensed as incurred, and are net of customer reimbursements.

**ENVIRONMENTAL REMEDIATION AND COMPLIANCE COSTS:** Environmental remediation costs are accrued when such costs are probable and reasonable estimates are determinable. Cost estimates are not discounted and include investigation, cleanup and monitoring activities; such estimates are adjusted, if necessary, based on additional findings. In general, environmental compliance costs are expensed. Environmental compliance costs at current operating sites are capitalized, if they increase the value of the property and/or prevent environmental hazards from occurring.

**INCOME TAXES:** Deferred income taxes are recognized by applying enacted statutory tax rates, applicable to future years, to

temporary differences between the tax bases and financial statement carrying values of the Company's assets and liabilities. Valuation allowances are recorded to reduce deferred tax assets to amounts that are more likely than not to be realized. United States income taxes and withholding taxes are accrued on the portion of earnings of international subsidiaries and affiliates (which qualify as joint ventures) intended to be remitted to the parent company.

STOCK-BASED COMPENSATION: The Company has elected to account for stock-based compensation using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees", and related Interpretations. Accordingly, compensation cost for stock options is measured as the excess, if any, of the quoted market price of the Company's stock at the date of the grant over the amount an employee must pay to acquire the stock.

NET INCOME PER SHARE: Basic net income per share is computed by dividing net income by the weighted-average number of shares of Common Stock outstanding during each period. Net income per share, assuming dilution, considers the potential issuance of common shares under the Company's stock option and award plans, based on the treasury method. The treasury method assumes use of exercise proceeds to repurchase Common Stock at the average fair market value in the period.

OTHER INCOME (EXPENSE)

Other income (expense) includes the following:

|   | 1997     | 1996     | 1995     |
|---|----------|----------|----------|
|   | ----     | ----     | ----     |
| Interest income                                 | \$ 2,000 | \$ 1,300 | \$ 2,000 |
| Foreign exchange losses                         | --       | (100)    | (1,400)  |
| Loss on sales of real estate<br>and investments | (700)    | (200)    | (200)    |
| Other   | (200)    | (100)    | 1,100    |
|   | -----    | -----    | -----    |
|   | \$ 1,100 | \$ 900   | \$ 1,500 |
|   | -----    | -----    | -----    |

RESTRUCTURING CHARGE

On March 29, 1996, the Company approved a major restructuring plan which included the closing or substantial downsizing of six manufacturing facilities, disposition of related excess equipment

and properties and an approximate 5% reduction of the workforce. The total estimated charge related to these planned actions was \$15,000, net of \$6,500 of income tax benefits, and was accrued in the first quarter of 1996. Approximately one-third of the net charge related to reduction in personnel, including manufacturing and staff positions, and covered severance pay and other benefits to be provided to terminated employees. At December 31, 1997, 225 employees have been terminated and total payout of severance and benefits to date is \$6,700. The remaining accrued net charge covered facility close down costs and reduced to estimated net realizable value the carrying value of equipment and facilities made excess by the restructuring plan. Facilities in Puerto Rico, Colorado, Germany and Argentina were closed; two of four buildings idled have been sold to date. Facilities in Brazil and Pennsylvania were downsized and the machinery manufacturing operations were sold. Restructuring activities, except for sale of two buildings and certain excess equipment and payout of remaining severance have been completed.

#### ACQUISITIONS AND INVESTMENTS

On April 27, 1995, the Company completed its acquisition of Paco, a company providing contract packaging and contract manufacturing services to pharmaceutical and personal-care consumer companies in the United States and Puerto Rico. Paco was a public company traded over-the-counter, and the merger followed the completion of a cash tender offer for Paco common stock at \$12.25 per share, for a total consideration of \$52,400. The purchase was financed using available cash of \$22,400 and a long-term credit facility of \$30,000. The excess of the purchase price over the net assets acquired of \$22,900 is being amortized over 30 years. Paco has been consolidated since May 1, 1995.

On December 18, 1995, the Company acquired the remaining minority ownership interest in Schubert Seals A/S (Schubert), a Danish manufacturer of metal seals and related products mainly for the pharmaceutical industry. The purchase price for the minority owner's interest was DK40,000 (\$7,200 at December 18, 1995) and was financed through new debt facilities. The excess of the purchase price over the net assets acquired approximates \$4,500 and is being amortized over 40 years.

These acquisitions were accounted for as purchases. The following table presents selected financial information for the year ended December 31, 1995, on a pro forma basis (unaudited) assuming the acquisitions noted above had occurred on January 1, 1995:

|                                     | 1995      |
|-------------------------------------|-----------|
| Net sales                           | \$433,000 |
| Income before taxes                 | 40,000    |
| Income from consolidated operations | 26,600    |
| Net income                          | 27,500    |
| Basic net income per share          | \$ 1.66   |

The Company acquired in each of the years 1996 and 1995 a 10% ownership interest in DanBioSyst UK Ltd.(DBS), a contract research company specializing in noninvasive drug delivery methods. The total consideration for these acquisitions was \$1,600 in cash and \$500 in Common Stock in 1996 and cash of \$2,500 in 1995. The Company currently holds a 30% ownership interest in DBS.

#### INCOME TAXES

Income before income taxes and minority interests was derived as follows:

|                          | 1997     | 1996      | 1995      |
|--------------------------|----------|-----------|-----------|
| Domestic operations      | \$39,500 | \$ 11,500 | \$ 26,700 |
| International operations | 17,900   | 14,300    | 15,800    |
|                          | \$57,400 | \$ 25,800 | \$ 42,500 |

The related provision for income taxes consists of:

|                    | 1997      | 1996     | 1995     |
|--------------------|-----------|----------|----------|
| Currently payable: |           |          |          |
| Federal            | \$ 16,000 | \$ 8,000 | \$ 5,600 |
| State              | 600       | 700      | 600      |
| International      | 4,200     | 7,800    | 5,700    |
|                    | 20,800    | 16,500   | 11,900   |

|               |         |           |           |
|---------------|---------|-----------|-----------|
| Deferred:     |         |           |           |
| Federal       | 1,800   | (3,600)   | 1,200     |
| State         | --      | (200)     | 100       |
| International | (9,300) | (1,900)   | 700       |
|               | -----   | -----     | -----     |
|               | (7,500) | (5,700)   | 2,000     |
|               | -----   | -----     | -----     |
|               | 13,300  | \$ 10,800 | \$ 13,900 |
|               | -----   | -----     | -----     |

A reconciliation of the United States statutory corporate tax rate to the Company's effective consolidated tax rate on income before income taxes and minority interests is as follows:

|   | 1997   | 1996  | 1995  |
|---|--------|-------|-------|
|   | -----  | ----- | ----- |
| Statutory corporate tax rate                      | 35.0%  | 35.0% | 35.0% |
| Tax on international operations<br>in excess of   |        |       |       |
| United States tax rate                            | 4.7    | 2.4   | 1.6   |
| German tax reorganization benefit                 | (21.7) | -     | -     |
| U.S. tax on repatriated<br>international earnings | 4.3    | 1.0   | .1    |
| Puerto Rico tax accounting change                 | -      | -     | (1.9) |
| State income taxes, net of Federal<br>tax benefit | .7     | 1.8   | 1.0   |
| Other   | .2     | 1.6   | (3.0) |
|   | -----  | ----- | ----- |
| Effective tax rate                                | 23.2%  | 41.8% | 32.8% |
|   | -----  | ----- | ----- |

In the third quarter of 1997, the Company completed a tax reorganization of certain German subsidiaries. The benefit of this reorganization was reduced in the fourth quarter due to a tax law change and completion of a tax audit.

The net current and noncurrent components of deferred income taxes recognized in the balance sheet at December 31 are as follows:

|                            | 1997     | 1996     |
|----------------------------|----------|----------|
|                            | -----    | -----    |
| Net current assets         | \$ 9,000 | \$10,200 |
| Net noncurrent liabilities | 19,500   | 29,800   |
|                            | -----    | -----    |

The following is a summary of the significant components of the Company's deferred tax assets and liabilities as of December 31:

|  | 1997     | 1996     |
|--|----------|----------|
|  | -----    | -----    |
| Deferred tax assets:                             |          |          |
| Loss on asset dispositions<br>and plant closings | \$2,500  | \$ 2,900 |
| Severance and deferred<br>compensation           | 9,200    | 9,100    |
| German tax reorganization                        | 8,300    | -        |
| Net operating loss carryovers                    | 2,300    | 2,300    |
| Foreign tax credit carryovers                    | 900      | 900      |
| Restructuring charge                             | 1,200    | 3,500    |
| Other  | 4,000    | 3,000    |
| Valuation allowance                              | (2,500)  | (2,900)  |
|  | -----    | -----    |
| Total  | \$25,900 | \$18,800 |
|  | -----    | -----    |
|  | 1997     | 1996     |
|  | -----    | -----    |
| Deferred tax liabilities:                        |          |          |
| Accelerated depreciation                         | \$26,900 | \$31,500 |
| Severance and deferred compensation              | 4,300    | 1,900    |
| Other  | 5,200    | 5,000    |
|  | -----    | -----    |
| Total  | \$36,400 | \$38,400 |
|  | -----    | -----    |

At December 31, 1997, subsidiaries had operating tax loss carryovers of \$37,300, which will be available to apply against the future taxable income of such subsidiaries. The carryover periods expire beginning with \$400 in 1998 and continue through 2002.

In 1997, the Company repatriated \$12,000 of undistributed earnings of international subsidiaries and \$2,400 of tax was recorded. At December 31, 1997, remaining undistributed earnings of international subsidiaries, on which deferred income taxes have not been provided, amounted to \$74,600. It is the Company's intention to reinvest these undistributed earnings of foreign subsidiaries, and it is not practicable to determine the amount of income or withholding tax that would be payable upon the remittance of those earnings. Such earnings would become taxable upon the sale or liquidation of foreign subsidiaries or upon the remittance of dividends. Tax credits that would become available upon distribution of such earnings could reduce income taxes then payable at the United States statutory rate. As of December 31,

1997, the Company had available foreign tax credit carryovers of approximately \$900 expiring in 1998 through 2002.

Net Income Per Share

In 1997, the Financial Accounting Standards Board (FASB) issued a new standard for calculating and presenting net income per share. The Note "Summary of Significant Accounting Policies" describes the calculation of income per share for the Company based on this new standard. Basic net income per share is identical to the Company's historical presentation of net income per share, which had been calculated using the weighted average number of common shares outstanding, because dilution from the Company's common stock equivalents was immaterial. The Company's income per share in all financial statements has been amended to reflect the new standard.

The following table reconciles shares used in basic net income per share to the shares used in net income per share assuming dilution. There is no adjustment to the net income of the Company in the calculation of net income per share assuming dilution.

|   | 1997     | 1996     | 1995     |
|---|----------|----------|----------|
|   | -----    | -----    | -----    |
| Net Income  | \$44,400 | \$16,400 | \$28,700 |
| -----   |          |          |          |
| Basic Average Common Shares outstanding           | 16,475   | 16,418   | 16,557   |
| Assumed stock options exercised and awards vested | 97       | 82       | 161      |
|   | -----    | -----    | -----    |
| Average common shares, assuming dilution          | 16,572   | 16,500   | 16,718   |
| -----   |          |          |          |

In June 1997, the FASB issued Financial Accounting Standard No. 130, "Reporting Comprehensive Income", that establishes rules for reporting and displaying comprehensive income. The Company will display comprehensive income and its components in the Consolidated Statement of Shareholders' Equity beginning in 1998. Comprehensive income includes the net income reported and other revenue, expenses, gains and losses which generally accepted accounting principles exclude from current net income. For the Company, the items

excluded from current net income are unrealized gains or losses on available-for-sale securities and foreign currency adjustments.

#### INVENTORIES

Inventories at December 31 include the following:

|                 | 1997     | 1996     |
|-----------------|----------|----------|
| Finished goods  | \$15,800 | \$18,000 |
| Work in process | 8,100    | 8,500    |
| Raw materials   | 14,400   | 17,500   |
|                 | -----    | -----    |
|                 | \$38,300 | \$44,000 |
|                 | -----    | -----    |

Included above are inventories located in the United States that are valued on the LIFO basis, amounting to \$12,600 and \$11,000 at December 31, 1997 and 1996, respectively, which are approximately \$7,600 and \$8,600, respectively, lower than replacement value.

#### PROPERTY, PLANT AND EQUIPMENT

A summary of property, plant and equipment at December 31 is presented in the following table:

|                            | Years of<br>Expected<br>Useful<br>Life | 1997      | 1996      |
|----------------------------|--|-----------|-----------|
| Land                       |  | \$ 3,500  | \$ 4,300  |
| Buildings and improvements | 7-50                                   | 97,000    | 105,500   |
| Machinery and equipment    | 3-20                                   | 261,800   | 249,200   |
| Molds and dies             | 4-6                                    | 52,600    | 55,200    |
| Construction in progress   |  | 13,700    | 17,400    |
|                            |  | -----     | -----     |
|                            |  | \$428,600 | \$431,600 |
|                            |  | -----     | -----     |

#### AFFILIATED COMPANIES

At December 31, 1997, the following affiliated companies were accounted for under the equity method:

|                                 | Location       | Fiscal<br>Year<br>End | Ownership<br>Interest |
|---------------------------------|----------------|-----------------------|-----------------------|
| The West Company de Mexico S.A. | Mexico         | December 31           | 49%                   |
| Aluplast S.A. de C.V.           | Mexico         | December 31           | 49%                   |
| Pharma-Tap S.A. de C.V.         | Mexico         | December 31           | 49%                   |
| Daikyo Seiko, Ltd.              | Japan          | October 31            | 25%                   |
| DanBioSyst U.K. Ltd.            | United Kingdom | March 31              | 30%                   |

A summary of the financial information for these companies is presented below:

|                                      | 1997      | 1996      |
|--------------------------------------|-----------|-----------|
| Balance Sheet:                       |           |           |
| Current assets                       | \$ 80,500 | \$ 82,400 |
| Noncurrent assets                    | 91,900    | 77,500    |
| Total assets                         | \$172,400 | \$159,900 |
| Current liabilities                  | \$ 47,600 | \$ 36,800 |
| Noncurrent liabilities               | 66,500    | 65,300    |
| Owners' equity                       | 58,300    | 57,800    |
| Total liabilities and owners' equity | \$172,400 | \$159,900 |

|                   | 1997     | 1996     | 1995     |
|-------------------|----------|----------|----------|
| Income Statement: |          |          |          |
| Net sales         | \$79,300 | \$80,800 | \$80,400 |
| Gross profit      | 19,800   | 25,500   | 23,600   |
| Net income        | 3,300    | 5,900    | 3,400    |

Unremitted income of affiliated companies included in consolidated retained earnings amounted to \$11,100, \$11,000 and \$9,800 at December 31, 1997, 1996 and 1995, respectively. Dividends received from affiliated companies were \$400 in 1997, \$400 in 1996 and \$200 in 1995.

Daikyo Seiko, Ltd. classifies its debt and equity securities in one of two categories, trading or available-for-sale, and carries them at fair value. Unrealized holding gains and losses on trading securities are included in income. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are reported as part of shareholders' equity until realized. Cost of securities is determined on the moving average method. The Company's equity in these unrealized gains and losses included in the Company's shareholders' equity was \$100, \$400 and \$300 at December 31, 1997, 1996 and 1995, respectively.

#### DEBT

SHORT-TERM: Notes payable in the amounts of \$900 and \$1,900 at December 31, 1997 and 1996, respectively, are payable within one year and bear interest at a weighted-average interest rate of 4% and 5.7%, respectively. At December 31, 1996, short-term debt (under a credit line) of \$15,800 and short-term debt of BPS 6,950 (\$11,900) were classified as long-term because of the Company's intent to renew the borrowings using available long-term credit facilities.

| LONG TERM:<br>At December 31   | 1997     | 1996     |
|--|----------|----------|
|  | -----    | -----    |
| Unsecured:   |          |          |
| Revolving credit facility,<br>due 2002 (5.7% to 8.05%)               | \$22,100 | \$15,800 |
| Tax-exempt industrial revenue bonds,<br>due 2005 (4.2% to 5.95%) (a) | 11,100   | 11,100   |
| Subordinated debentures, due 2007 (6.5%)                             | 3,200    | 3,100    |
| Other notes, due 1998 to 2002 (3.93% to 9.5%)                        | 40,300   | 52,300   |
| Collateralized:  |          |          |
| Mortgage notes, due 1998 to 2016 (3.5% to<br>12.5%) (b)              | 11,400   | 14,200   |
|  | -----    | -----    |
| Total long-term debt   | 88,100   | 96,500   |
| Less current portion   | 700      | 1,000    |
|  | -----    | -----    |
|  | \$87,400 | \$95,500 |
|  | -----    | -----    |

(a) The proceeds of industrial revenue bonds that were not required for the respective construction projects have been invested by the Company. Use of these excess funds and earnings thereon is restricted to servicing the debt. The aggregate of unexpended proceeds and earnings thereon of \$1,400 is reflected as a reduction of the principal outstanding on the bonds.

(b) Real estate, machinery and equipment with a carrying value of \$11,900 at December 31, 1997 are pledged as collateral.

In 1997, the Company amended an existing revolving credit facility, increasing the amount available for borrowing and adjusting the interest rate and facility fees. The amended agreement provides for borrowings up to \$70,000 and \$55,000 with a term of 364 days and five years through August 2002, respectively, renewable at the lenders' option. At December 31, 1997, \$70,000 is available under the short-term facility. Interest is charged at a floating rate based on Libor, and a commitment fee ranging up to 3/20% per annum is payable on the facility. Two subsidiaries have long-term lines of credit providing up to FF47,100 (\$7,800) at a floating rate based on PIBOR plus 2/5% and a commitment fee up to 3/10% per annum. At December 31, 1997, FF37,100 (\$6,200) is available under these facilities. In addition, a subsidiary has a long term line of credit providing up to DM35,000 (\$19,500) at floating rates based on DM LIBOR plus 3/10% and a commitment fee of 1/10% per annum. At December 31, 1997, DM5,900 (\$3,300) is available under this facility.

At December 31, 1997, \$4,300 at par value of Paco's subordinated debentures were outstanding. The subordinated debentures are reflected in the balance sheet net of discount which is being amortized through the maturity date of the subordinated debentures, March 1, 2007. The unamortized discount totaled \$1,100 and \$1,200 at December 31, 1997 and 1996, respectively. The holders have the right to convert such subordinated debentures into cash for an amount approximating 50% of the par value of the subordinated debentures converted. Interest is payable semiannually.

Long-term debt maturing in the years following 1998 is: \$700 in 1999, \$41,200 in 2000, \$700 in 2001 and \$24,500 in 2002.

Certain of the financing agreements, among other things, require the maintenance of certain working capital, interest coverage and debt-to-capitalization ratios and tangible net worth; restrict the sale of assets; and limit the payment of dividends. Under the most restrictive debt covenant at December 31, 1997 retained earnings free of restriction were \$108,400.

Interest costs incurred during 1997, 1996 and 1995 were \$6,000, \$7,300 and \$7,800, respectively, of which \$400, \$400 and \$500, respectively, were capitalized as part of the cost of acquiring certain assets.

At December 31, 1997, the Company has three interest rate swap contracts outstanding, with notional value of \$3,000 each, to fix the interest rates at 6.51%, 6.54% and 6.775% for a five-year period. Under the terms of these agreements, the Company makes periodic interest payments based on these fixed rates of interest on the notional principal amounts to a counterparty that makes payments based on a market interest rate. The net interest expense recognized in connection with these agreements was less than \$100 in 1997 and 1996.

#### FINANCIAL INSTRUMENTS

The following disclosure reflects the estimated fair value of financial instruments of the Company as of December 31:

|                            | Carrying Value |          | Estimated Fair Value |          |
|----------------------------|----------------|----------|----------------------|----------|
|                            | 1997           | 1996     | 1997                 | 1996     |
| Cash and cash equivalents  | \$52,300       | \$27,300 | \$52,300             | \$27,300 |
| Short-and long-term debt   | 89,000         | 98,400   | 88,400               | 98,100   |
| Interest rate swaps(a)     | -              | -        | -                    | -        |
| Forward exchange contracts | -              | -        | -                    | 300      |

(a) The estimated fair value of the interest rate swaps was less than \$100 at December 31, 1997 and 1996. The estimated fair value of forward exchange contracts was less than \$100 at December 31, 1997.

Methods used to estimate the fair market values of the above listed financial instruments are as follows: cash and cash equivalents due to their short maturity are estimated at carrying values that approximate market; debt is estimated based on current market quotes for instruments of similar maturity; interest rate swaps (see preceding Note "Debt") and forward exchange rate contracts are valued at published market prices, market prices of comparable instruments or quotes.

Notional amounts upon which current interest rate swap contracts are based do not represent amounts exchanged and are not a measure of the Company's exposure. Failure by the contract counterparty to make interest payments under an interest swap contract would result in an accounting loss to the Company only if interest rates exceeded the fixed rate to be paid by the Company. The accounting loss corresponds to the cost to replace the swap contract.

Forward exchange contracts are used to hedge raw material and equipment purchase commitments and foreign-currency-denominated receivables and payables. At December 31, 1997 and 1996, the Company had forward exchange rate contracts that totaled \$600 and \$5,300, respectively. Forward exchange contracts related to equipment and raw material purchases are denominated in German marks and Italian lira; generally, these contracts expire monthly through July 31, 1998.

#### BENEFIT PLANS

**PENSION PLANS:** The Company and certain domestic and international subsidiaries sponsor defined benefit pension plans. The United States plans cover substantially all domestic employees and members of the Company's Board of Directors. The plans call for benefits to be paid to eligible participants at retirement based on compensation rates near retirement and/or on length of service. Contributions to the United States employee plans reflect investment performance of plan assets, benefits attributed to employees' service to date and service expected in the future. Assets of the United States employee plans and international subsidiary plans consist primarily of common and preferred stocks, investment-grade corporate bonds, and United States government obligations; other international subsidiary plans and the plan for directors are not funded.

Total pension (income) expense for 1997, 1996 and 1995 includes the following:

|                               | 1997      | 1996     | 1995     |
|-------------------------------|-----------|----------|----------|
| Service cost                  | \$ 3,600  | \$ 3,900 | \$ 2,800 |
| Interest cost                 | 8,000     | 7,700    | 6,800    |
| Actual return on assets       | (27,000)  | (20,100) | (30,000) |
| Net amortization and deferral | 11,800    | 8,000    | 20,600   |
| Pension (income) expense      | \$(3,600) | \$ (500) | \$ 200   |

The following sets forth the funded status of the employee pension plans and the amounts included in the accompanying balance sheets at December 31:

|  | United States Plans |             | International Plans |            |
|--|---------------------|-------------|---------------------|------------|
|  | 1997                | 1996        | 1997                | 1996       |
| Vested benefit obligations (VBO)         | \$ (90,900)         | \$ (81,900) | \$ (6,700)          | \$ (6,500) |
| Accumulated benefit obligations (ABO)    | \$ (92,700)         | \$ (83,300) | \$ (7,400)          | \$ (7,300) |
| Projected benefit obligations (PBO)      | \$ (111,200)        | \$ (99,800) | \$ (7,800)          | \$ (7,700) |
| Plan assets at fair value                | 161,200             | 140,200     | 4,700               | 4,000      |
| Assets in excess of (less than) PBO      | 50,000              | 40,400      | (3,100)             | (3,700)    |
| Unrecognized net (gain) loss             | (38,100)            | (31,900)    | 200                 | 300        |
| Unrecognized prior service cost          | --                  | (400)       | --                  | --         |
| Unamortized transition asset             | (4,100)             | (4,900)     | --                  | --         |
| Prepaid pension cost (accrued liability) | \$ 7,800            | \$ 3,200    | \$ (2,900)          | \$ (3,400) |

Information with respect to the unfunded pension plan for the Company's non-employee directors is as follows:

|                                 | 1997      | 1996      |
|---------------------------------|-----------|-----------|
|                                 | -----     | -----     |
| VBO                             | \$(1,100) | \$ (900)  |
|                                 | -----     | -----     |
| ABO                             | \$(1,200) | \$(1,000) |
|                                 | -----     | -----     |
| PBO                             | \$(1,400) | \$(1,300) |
| Unrecognized net gain           | (200)     | (100)     |
| Unrecognized prior service cost | 200       | 200       |
|                                 | -----     | -----     |
| Accrued liability               | \$(1,400) | \$(1,200) |
|                                 | -----     | -----     |

|                                    | United States Plans |       | International Plans |       |
|------------------------------------|---------------------|-------|---------------------|-------|
|                                    | 1997                | 1996  | 1997                | 1996  |
|                                    | -----               | ----- | -----               | ----- |
| Assumptions:                       |                     |       |                     | --    |
| Discount rate                      | 7.0%                | 7.5%  | 6.5%                | 6.5%  |
| Rate of increase in compensation   | 6.0%                | 6.0%  | 5.0%                | 3.0%  |
| Directors' retainer increase       | 5.5%                | 5.5%  | --                  | --    |
| Long-term rate of return on assets | 9.5%                | 9.5%  | 9.25%               | 9.25% |
|                                    | ---                 | ---   | ---                 | ---   |

OTHER RETIREMENT BENEFITS: The Company provides minimal life insurance benefits for certain United States retirees and pays a portion of healthcare (medical and dental) costs for retired United States salaried employees and their dependents. Benefits for plan participants age 65 and older are coordinated with Medicare. In 1996, the Company changed the plan to mandate Medicare Risk (HMO) coverage wherever possible, capped the total contribution for non-HMO coverage and limited eligibility for the plan to active employees age 45 or older. These plan changes reduced the accrued obligation and such reduction is being amortized as a component of the benefit cost. Retirees' contributions to the cost of these benefits may be adjusted from time to time. The Company's obligation is unfunded.

Total (income) expense recognized with respect to these non-pension retirement benefits includes:

|                               | 1997     | 1996     | 1995     |
|-------------------------------|----------|----------|----------|
|                               | -----    | -----    | -----    |
| Service cost                  | \$ 400   | \$ 500   | \$ 400   |
| Interest cost                 | 500      | 600      | 900      |
| Net amortization and deferral | (1,400)  | (1,200)  | (100)    |
|                               | -----    | -----    | -----    |
| Total (income) expense        | \$ (500) | \$ (100) | \$ 1,200 |
|                               | -----    | -----    | -----    |

The accrued obligation included in the accompanying balance sheets at December 31, 1997 and 1996, applicable to each employee group for non-pension retirement benefits is:

|                                      | 1997       | 1996       |
|--------------------------------------|------------|------------|
|                                      | -----      | -----      |
| Retired employees                    | \$ (3,100) | \$ (3,400) |
| Active employees--fully eligible     | (1,900)    | (1,400)    |
| Active employees--not fully eligible | (2,400)    | (1,800)    |
|                                      | -----      | -----      |
| Total                                | (7,400)    | (6,600)    |
| Unrecognized net loss                | 900        | 1,000      |
| Unrecognized gain from plan changes  | (7,500)    | (9,000)    |
|                                      | -----      | -----      |
| Accrued liability                    | \$(14,000) | \$(14,600) |
|                                      | -----      | -----      |

The discount rates used were 7% for 1997 and 7.5% for 1996; the healthcare cost trend used is 9% in 1998, decreasing to 5.5% by 2005. Increasing the assumed trend rate for healthcare costs by one percentage point would result in an accrued obligation of \$7,800 at December 31, 1997, for these retirement benefits and an increase of less than \$100 in the related 1997 expense.

OTHER: The Company provides certain postemployment benefits for terminated and disabled employees, including severance pay, disability-related benefits and healthcare benefits. These costs are accrued over the employee's active service period under certain circumstances or at the date of the event triggering the benefit.

The Company also sponsors a defined contribution savings plan for certain salaried and hourly United States employees. Company contributions are equal to 50% of each participant's contribution up to 6% of the participant's base compensation. Total expense of \$900 was incurred for Company contributions in each of the last three years.

#### CAPITAL STOCK

Purchases (sales) of Common Stock held in treasury during

the three years ended December 31, 1997 are as follows:

|   | 1997      | 1996      | 1995      |
|---|-----------|-----------|-----------|
|   | -----     | -----     | -----     |
| Shares held at January 1                | 462,200   | 224,000   | 381,100   |
| Purchases, net,<br>at fair market value | 40,200    | 507,200   | 38,600    |
| Shares issued for acquisition           | --        | (19,600)  | --        |
| Stock option exercises                  | (225,200) | (249,400) | (195,700) |
|   | -----     | -----     | -----     |
| Shares held at December 31              | 277,200   | 462,200   | 224,000   |
|   | -----     | -----     | -----     |

In 1996, the Company purchased, in accordance with an agreement approved by a majority of non-interested members of the Board of Directors, 440,000 shares of its common stock owned by a director who retired from the Board of Directors. The aggregate purchase price was \$10,000.

The Company's Shareholders Rights Plan entitles a shareholder to purchase 1/1000 of a share of a newly designated series of the Company's Preferred Stock at a price of \$75.00 with each Right. A Right becomes exercisable if a person or group (acquiror) acquires 15% or more of the Common Stock or commences a tender offer that would result in the acquiror owning 18% or more of the Common Stock. After the Rights become exercisable, and in the event the Company is involved in a merger or other business combination, sale of 50% or more of its assets or earning power, or if an acquiror purchases 18% or more of the Common Stock or engages in self-dealing transactions, a Right will entitle its holder to purchase common stock of the surviving company having a market value twice the exercise price of the Right. The Rights may be redeemed by the Company at \$.001 per Right at any time before certain events occur. Two Rights are attached to each share of Common Stock, and such Rights will not trade separately unless they become exercisable. All Rights expire on January 15, 2000.

In 1992, the Company made an offering under an employee stock purchase plan, which provides for the sale of the Company's Common Stock to substantially all employees at 85% of fair market value. An employee's purchases were limited annually to 10% of base compensation. The offer has been extended to December 31, 1999. Shares are purchased in the open market, or treasury shares are used.

STOCK OPTION AND AWARD PLANS

The Company has a long-term incentive plan for officers and key management employees of the Company and its subsidiaries that provides for the grant through March 8, 1998 of stock options, stock appreciation rights, restricted stock awards and performance awards. A maximum of 2,925,000 shares of common stock or stock equivalents are available for issue under this plan, of which 107,900 shares are available as of December 31, 1997, for future grant. A committee of the Board of Directors determines the terms and conditions of grants, except that the exercise price of certain options cannot be less than 100% of the fair market value of the stock on the date of grant, and all stock options and stock appreciation rights must expire no later than 10 years after the date of grant.

Option activity under this plan during the three years ended December 31, 1997, is summarized below:

|                                     | 1997      | 1996      | 1995      |
|-------------------------------------|-----------|-----------|-----------|
|                                     | -----     | -----     | -----     |
| Options outstanding,<br>January 1   | 750,400   | 854,600   | 726,400   |
| Granted                             | 748,500   | 209,800   | 332,400   |
| Exercised                           | (213,700) | (249,400) | (191,200) |
| Forfeited                           | --        | (64,600)  | (13,000)  |
|                                     | -----     | -----     | -----     |
| Options outstanding,<br>December 31 | 1,285,200 | 750,400   | 854,600   |
|                                     | -----     | -----     | -----     |
| Options exercisable,<br>December 31 | 640,200   | 630,400   | 734,600   |
|                                     | -----     | -----     | -----     |
| Weighted-Average<br>Exercise Price  | 1997      | 1996      | 1995      |
|                                     | -----     | -----     | -----     |
| Options outstanding,<br>January 1   | \$ 23.42  | \$ 22.60  | 19.62     |
| Granted                             | 28.82     | 22.45     | 27.44     |
| Exercised                           | 21.45     | 20.00     | 19.28     |
| Forfeited                           | --        | 22.73     | 18.80     |
|                                     | -----     | -----     | -----     |
| Options outstanding,<br>December 31 | 27.23     | 23.42     | 22.60     |
| Options exercisable,<br>December 31 | 27.04     | 22.13     | 21.37     |
|                                     | -----     | -----     | -----     |

The range of exercise prices at December 31, 1997 is \$15.13 to \$30.13 per share. The weighted-average remaining contractual life at December 31, 1997, is 6 years.

Under the Company's management incentive plan, participants are paid cash bonuses on the attainment of certain financial goals. Bonus participants are required to use 25% of their cash bonus, after certain adjustments for taxes payable, to purchase common stock of the Company at current fair market value. Bonus participants are given a restricted stock award equal to one share for each four shares of common stock purchased with bonus awards. These stock awards vest at the end of four years provided that the participant has not made a disqualifying disposition of the stock purchased. Restricted stock awards were granted for 2,900 shares in 1997 and 3,000 shares in 1995, and in 1997, 1996 and 1995, respectively, 300 shares, 1,700 shares and 200 shares were forfeited. Compensation expense is being recognized over the vesting period based on the fair market value of common stock on the award date: \$27.57 per share in 1997 and \$25.31 per share in 1995.

A nonqualified stock option plan for non-employee directors provides for an annual grant to each eligible director of options covering 1,500 shares at an option price equal to 100% of the fair market value of the Company's common stock on the date of grant. Common Stock issued pursuant to the plan may not exceed 200,000 shares of which 117,500 shares are available as of December 31, 1997, for future grants. Option activity under this plan during the three years ended December 31, 1997, is summarized below:

|   | 1997     | 1996    | 1995    |
|---|----------|---------|---------|
|   | -----    | -----   | -----   |
| Options outstanding,<br>January 1                           | 61,500   | 48,000  | 36,000  |
| Granted   | 13,500   | 13,500  | 16,500  |
| Exercised   | (11,500) | --      | (4,500) |
|   | -----    | -----   | -----   |
| Options outstanding and<br>exercisable, December 31         | 63,500   | 61,500  | 48,000  |
|   | -----    | -----   | -----   |
|   | 1997     | 1996    | 1995    |
|   | -----    | -----   | -----   |
| Weighted-Average Price<br>Options outstanding,<br>January 1 | \$24.18  | \$24.60 | \$22.66 |
| Granted   | 28.13    | 22.69   | 28.25   |
| Exercised   | 22.28    | --      | 22.42   |
|   | -----    | -----   | -----   |
| Options outstanding and<br>exercisable, December 31         | 25.49    | 24.18   | 24.60   |
|   | -----    | -----   | -----   |

The range of exercise prices at December 31, 1997 is \$22.69 to \$28.25 per share. The weighted-average remaining contractual life at December 31, 1997 is 2 years.

The Company has elected to measure compensation cost using the intrinsic value method of accounting. Accordingly, no compensation cost has been recognized related to stock option plans because grants are at 100% of fair market value on the grant date. If the fair-value based method of accounting has been applied to stock option grants in the most recent three years, the Company's net income and basic net income per share would have been reduced as summarized below:

|                       | 1997     | 1996     | 1995     |
|-----------------------|----------|----------|----------|
|                       | -----    | -----    | -----    |
| Net income:           |          |          |          |
| As reported           | \$44,400 | \$16,400 | \$28,700 |
| Pro forma             | 43,200   | 15,700   | 27,600   |
| Net income per share: |          |          |          |
| As reported           | \$ 2.69  | \$ 1.00  | \$ 1.73  |
| Pro forma             | 2.62     | .96      | 1.67     |

The following assumptions were used in 1997, 1996 and 1995 to compute the fair value of the option grants in 1997, 1996 and 1995 using the Black-Scholes option-pricing model: a risk-free interest rate of 6.15%, 5.87% and 6.57%, respectively, stock volatility of 22.2%, 25.7% and 19.4%, respectively; dividend yield of 2% for all years; and expected option lives of three years for the long-term plan and two years for the non-employee directors plan.

## COMMITMENTS AND CONTINGENCIES

At December 31, 1997, the Company was obligated under various operating lease agreements with terms ranging from one month to 20 years. Rental expense in 1997, 1996 and 1995 was \$7,600, \$7,900 and \$6,600, respectively. Minimum rentals for noncancelable operating leases with initial or remaining terms in excess of one year are: 1998--\$6,800; 1999--\$6,600; 2000--\$5,600; 2001--\$5,400; 2002--\$5,600 and thereafter \$54,200. Minimum operating lease payments have been reduced by related minimum sublease income.

At December 31, 1997, outstanding contractual commitments for the purchase of equipment and raw materials amounted to \$7,800, all of which is due to be paid in 1998.

The Company has accrued the estimated cost of environmental compliance expenses related to soil or groundwater contamination at current and former manufacturing facilities. The ultimate cost to be incurred by the Company and the timing of such payments cannot be fully determined. However, based on consultants' estimates of the costs of remediation in accordance with applicable regulatory requirements, the Company believes the accrued liability of \$1,600 at December 31, 1997 is sufficient to cover the future costs of these remedial actions, which will be carried out over the next two to five years. The Company has not anticipated any possible recovery from insurance or other sources.

## INDUSTRY SEGMENT AND OPERATIONS BY GEOGRAPHIC AREA

The West Company and its affiliated companies operate in one industry segment. The Company develops, manufactures and markets stoppers, closures, containers, medical device components and assemblies made from elastomers, metal and plastic, and provides contract packaging and contract manufacturing services for the healthcare and consumer products markets. Total sales include sales to one customer of approximately \$50,500, \$48,300 and \$43,700 in 1997, 1996 and 1995, respectively. Operating information and identifiable assets by geographic area of manufacture are shown below:

|  | 1997      | 1996      | 1995      |
|--|-----------|-----------|-----------|
|  | -----     | -----     | -----     |
| Net sales:                               |           |           |           |
| United States                            | \$293,200 | \$283,900 | \$247,400 |
| Europe                                   | 123,100   | 136,200   | 128,000   |
| Other                                    | 36,200    | 38,700    | 37,500    |
|  | -----     | -----     | -----     |
| Total                                    | \$452,500 | \$458,800 | \$412,900 |
|  | -----     | -----     | -----     |
| Net income from consolidated operations: |           |           |           |
| United States                            | \$ 20,500 | \$ 5,900  | \$ 19,000 |
| Europe                                   | 19,000    | 6,800     | 5,000     |
| Other                                    | 4,400     | 2,200     | 3,800     |
|  | -----     | -----     | -----     |
| Total                                    | \$ 43,900 | \$ 14,900 | \$ 27,800 |
|  | -----     | -----     | -----     |
| Identifiable assets:                     |           |           |           |
| United States                            | \$268,100 | \$246,700 | \$251,900 |
| Europe                                   | 145,100   | 153,800   | 158,500   |
| Other                                    | 42,100    | 52,800    | 48,100    |
|  | -----     | -----     | -----     |
|  | \$455,300 | \$453,300 | \$458,500 |
|  | -----     | -----     | -----     |
| Investments in affiliated companies:     |           |           |           |
| United States                            | \$ 300    | \$ 700    | \$ 700    |
| Europe                                   | 7,000     | 7,300     | 4,600     |
| Other                                    | 15,400    | 16,100    | 16,300    |
|  | -----     | -----     | -----     |
|  | \$ 22,700 | \$ 24,100 | \$ 21,600 |
|  | -----     | -----     | -----     |
| Total assets                             | \$477,900 | \$477,400 | \$480,100 |
|  | -----     | -----     | -----     |

In June 1997, the [FASB Financial Accounting Standards Board] issued Financial Accounting Standards No. 131, "Disclosures about Segments of an Enterprise and Related Information", which requires that the Company report financial and descriptive information about its reportable operating segments beginning at year end 1998. Operating segments are defined as components of a business about which separate financial information is available and evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. Management is still in process of evaluating the impact this statement will have on its public reporting.

QUARTERLY OPERATING AND PER SHARE DATA (UNAUDITED)  
THE WEST COMPANY, INCORPORATED AND SUBSIDIARIES  
(in thousands of dollars, except per share data)

| Quarter Ended         | Net Sales | Gross Profit | Net Income (Loss) | Net Income (Loss) Per Share |                   |
|-----------------------|-----------|--------------|-------------------|-----------------------------|-------------------|
|                       |           |              |                   | Basic                       | Assuming Dilution |
| March 31, 1997        | \$114,700 | \$ 32,700    | \$ 8,400          | \$ .51                      | \$ .51            |
| June 30, 1997         | 123,100   | 36,300       | 10,100            | .61                         | .61               |
| September 30, 1997(1) | 105,200   | 29,200       | 17,300            | 1.05                        | 1.05              |
| December 31, 1997(1)  | 109,500   | 33,900       | 8,600             | .52                         | .51               |
|                       | -----     | -----        | -----             | -----                       | -----             |
|                       | \$452,500 | \$132,100    | \$ 44,400         | \$2.69                      | \$2.68            |
|                       | -----     | -----        | -----             | -----                       | -----             |
| March 31, 1996        | \$113,900 | \$ 31,300    | \$ (8,200)        | \$(.49)                     | \$(.49)           |
| June 30, 1996         | 119,000   | 31,900       | 8,100             | .50                         | .49               |
| September 30, 1996    | 111,300   | 29,600       | 6,600             | .40                         | .40               |
| December 31, 1996     | 114,600   | 33,300       | 9,900             | .60                         | .60               |
|                       | -----     | -----        | -----             | -----                       | -----             |
|                       | \$458,800 | \$126,100    | \$ 16,400         | \$1.00                      | \$ .99            |
|                       | -----     | -----        | -----             | -----                       | -----             |

(1) Third quarter 1997 results include net tax benefits related mainly to the tax reorganization of subsidiaries located in Germany; fourth quarter 1997 includes adjustment to these net tax benefits related to changes in the tax law and a tax audit. See Note "Income Taxes" on page 23.

(2) First quarter 1996 results include charges related to restructuring actions described in the Note "Restructuring Charge" on page 23.

REPORT OF INDEPENDENT ACCOUNTANTS

TO THE SHAREHOLDERS AND THE BOARD OF DIRECTORS OF THE WEST COMPANY,  
INCORPORATED:

We have audited the accompanying consolidated balance sheets of The West Company, Incorporated and Subsidiaries as of December 31, 1997 and 1996, and the related consolidated statements of income, shareholders' equity, and cash flows for each of the three years in the period ended December 31, 1997. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of The West Company, Incorporated and Subsidiaries as of December 31, 1997 and 1996, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1997, in conformity with generally accepted accounting principles.

Coopers & Lybrand L.L.P.

2400 Eleven Penn Center  
Philadelphia, Pennsylvania  
February 18, 1998

## REPORT OF MANAGEMENT

The Company's management is responsible for the integrity, reliability and objectivity of publicly reported financial information. Management believes that the financial statements as of and for the year ended December 31, 1997, have been prepared in conformity with generally accepted accounting principles and that information presented in this Annual Report is consistent with those statements. In preparing the financial statements, management makes informed judgements and estimates where necessary, with appropriate consideration given to materiality.

In meeting its responsibility for preparing financial statements, management maintains a system of internal accounting controls to assure the safety of its assets against unauthorized acquisition, use or disposition. This system is designed to provide reasonable assurance that assets are safeguarded and transactions are executed in accordance with management's authorization and recorded properly, allowing for preparation of reliable financial statements. There are inherent limitations in the effectiveness of all internal control systems. The design of the Company's system recognizes that errors or irregularities may occur and that estimates and judgements are required to assess the relative cost and expected benefits of the controls. Management believes that the Company's accounting controls provide reasonable assurance that errors or irregularities that could be material to the financial statements are prevented or would be detected within a timely period.

The independent accountants are appointed by the Board of Directors, with the approval of the shareholders. As part of their engagement, the independent accountants audit the Company's financial statements, express their opinion thereon, and review and evaluate selected systems, accounting procedures and internal controls to the extent they consider necessary to support their report.

William G. Little  
Chairman, President and Chief Executive Officer

TEN YEAR SUMMARY  
THE WEST COMPANY, INCORPORATED AND SUBSIDIARIES  
(in thousands, except per share data)

|   | 1997      | 1996    | 1995    |
|---|-----------|---------|---------|
|   | ----      | ----    | ----    |
| SUMMARY OF OPERATIONS                                       |           |         |         |
| Net sales   | \$452,500 | 458,800 | 412,900 |
| Operating profit (loss)                                     | \$ 63,000 | 32,700  | 49,800  |
| Income (loss) before income taxes and minority interests    | \$ 57,400 | 25,800  | 42,500  |
| Provision for income taxes                                  | \$ 13,300 | 10,800  | 13,900  |
| Minority interests  | \$ 200    | 100     | 800     |
|   | -----     |         |         |
| Income (loss) from consolidated operations                  | \$ 43,900 | 14,900  | 27,800  |
| Equity in net income of affiliated companies                | \$ 500    | 1,500   | 900     |
|   | -----     |         |         |
| Income (loss) before change in accounting method            | \$ 44,400 | 16,400  | 28,700  |
|   | -----     |         |         |
| Income (loss) before change in accounting method per share: |           |         |         |
| Basic (a)   | \$ 2.69   | 1.00    | 1.73    |
| Assuming dilution (b)                                       | \$ 2.68   | .99     | 1.71    |
| Average common shares outstanding,                          | \$ 16,475 | 16,418  | 16,557  |
| Average shares outstanding, assuming dilution               | \$ 16,572 | 16,500  | 16,718  |
| Dividends paid per common share                             | \$ .57    | .53     | .49     |
|   | -----     |         |         |
| Research, development and engineering expenses              | \$ 12,000 | 11,200  | 12,000  |
| Capital expenditures  | \$ 34,400 | 31,700  | 31,300  |
|   | -----     |         |         |
| YEAR-END FINANCIAL POSITION                                 |           |         |         |
| Working capital   | \$112,700 | 91,100  | 86,600  |
| Total assets  | \$477,900 | 477,400 | 480,100 |

|  |              |           |               |
|--|--------------|-----------|---------------|
| Total invested capital:                              |              |           |               |
| Total debt   | \$ 89,000    | 98,400    | 114,300       |
| Minority interests                                   | \$ 400       | 300       | 200           |
| Shareholders' equity                                 | \$ 277,700   | 252,000   | 254,100       |
|  | -----        |           |               |
| Total  | \$ 367,100   | 350,700   | 368,600       |
|  | -----        |           |               |
| PERFORMANCE MEASUREMENTS                             |              |           |               |
| Gross margin (c)                                     | % 29.2       | 27.5      | 28.6          |
| Operating profitability (d)                          | % 13.9       | 7.1       | 12.1          |
| Tax rate   | % 23.2       | 41.8      | 32.8          |
| Asset turnover ratio (e)                             | .95          | .96       | .94           |
| Return on average shareholders' equity               | % 16.7       | 6.5       | 11.9          |
| Total debt as a percentage of total invested capital | % 24.2       | 28.1      | 31.0          |
|  | -----        |           |               |
| Shareholders' equity per share                       | \$ 16.76     | 15.39     | 15.29         |
| Stock price range                                    | \$35-1/16-27 | 30-22-1/8 | 30-5/8-22-5/8 |

- (a) Based on average common shares outstanding.  
(b) Based on average common shares outstanding, assuming dilution.  
(c) Net sales minus cost of goods sold, including applicable depreciation and amortization, divided by net sales.  
(d) Operating profit (loss) divided by net sales.  
(e) Net sales divided by average total assets; 1993 asset turnover ratio is based on 12 months' sales for international subsidiaries.

1997 includes the net tax benefit mainly from a German tax reorganization which increased basic net income per share by \$.48.

1996 includes a restructuring charge that reduced operating results by \$.91 per share.

1995 includes for the first time the net operating results of Paco from May 1.

1994 includes for the first time the results of two companies in which majority ownership was acquired in 1994.

1993 includes 13 months of operating results for international subsidiaries.

Beginning in 1992 the Company's ownership interest in glass manufacturing operating results is reported as equity in net income of affiliates. Prior to the 1992 sale of a majority interest in such operation, operating results were fully consolidated.

1991 includes a restructuring charge that reduced operating results by \$1.37 per share

1990 includes a restructuring charge that reduced operating results by \$.45 per share, and 1990 included for the first time the results of two companies in which controlling ownership was acquired in 1989.

1988 included for the first time the results of an affiliate in which majority ownership was acquired in 1988.

TEN YEAR SUMMARY  
THE WEST COMPANY, INCORPORATED AND SUBSIDIARIES

(in thousands, except per share data)

| 1994    | 1993    | 1992    | 1991     | 1990    | 1989    | 1988    |
|---------|---------|---------|----------|---------|---------|---------|
| 365,100 | 348,700 | 337,500 | 328,900  | 323,200 | 308,700 | 285,400 |
| 45,400  | 40,600  | 38,700  | (1,600)  | 15,600  | 38,700  | 30,100  |
| 42,100  | 37,500  | 34,800  | (7,700)  | 9,600   | 34,400  | 26,100  |
| 13,400  | 14,300  | 14,300  | 4,700    | 6,400   | 13,200  | 10,100  |
| 1,900   | 1,700   | 1,700   | (2,400)  | 300     | 2,100   | 1,400   |
| 26,800  | 21,500  | 18,800  | (10,000) | 2,900   | 19,100  | 14,600  |
| 500     | 1,000   | 900     | 1,500    | 1,400   | 1,600   | 2,800   |
| 27,300  | 22,500  | 19,700  | (8,500)  | 4,300   | 20,700  | 17,400  |
| 1.70    | 1.42    | 1.26    | (.55)    | .27     | 1.28    | 1.07    |
| 1.69    | 1.41    | 1.25    | (.55)    | .27     | 1.27    | 1.07    |
| 16,054  | 15,838  | 15,641  | 15,527   | 15,793  | 16,235  | 16,249  |
| 16,215  | 16,010  | 15,776  | 15,527   | 15,816  | 16,301  | 16,261  |
| .45     | .41     | .40     | .40      | .40     | .31     | .29     |
| 12,000  | 11,400  | 11,100  | 10,800   | 10,900  | 11,900  | 11,300  |
| 27,100  | 33,500  | 22,400  | 25,600   | 33,200  | 34,300  | 29,700  |
| 50,400  | 46,400  | 37,700  | 26,500   | 36,500  | 50,400  | 53,000  |
| 397,400 | 309,200 | 304,400 | 313,200  | 343,500 | 313,000 | 298,900 |
| 57,800  | 32,300  | 42,000  | 58,400   | 78,500  | 58,100  | 55,200  |
| 1,900   | 10,900  | 10,100  | 8,400    | 11,700  | 9,100   | 10,600  |
| 227,300 | 188,100 | 168,600 | 152,600  | 176,100 | 179,700 | 171,400 |

| 287,000       | 231,300       | 220,700       | 219,400       | 266,300   | 246,900       | 237,200       |
|---------------|---------------|---------------|---------------|-----------|---------------|---------------|
| 32.1          | 30.2          | 28.8          | 25.6          | 24.4      | 26.5          | 25.0          |
| 12.4          | 11.7          | 11.5          | (.5)          | 4.8       | 12.5          | 10.5          |
| 31.8          | 38.2          | 41.1          | 61.7          | 66.5      | 38.5          | 38.6          |
| 1.04          | 1.11          | 1.10          | 1.00          | .98       | 1.01          | .99           |
| 13.2          | 13.2          | 12.3          | (8.9)         | 2.4       | 11.8          | 10.6          |
| 20.1          | 14.0          | 19.1          | 26.6          | 29.5      | 23.5          | 23.3          |
| 13.81         | 11.82         | 10.71         | 9.81          | 11.37     | 11.15         | 10.53         |
| 29 1/8-21 1/4 | 25 1/4-19 7/8 | 24 1/8-16 3/4 | 18 3/4-11 1/8 | 20-10 1/2 | 22 5/8-14 7/8 | 17 1/2-12 1/4 |



## SUBSIDIARIES OF THE COMPANY

| State/Jurisdiction<br>Incorporation<br>Ownership       | Direct<br>Stock     |            |
|--|---------------------|------------|
| The West Company, Incorporated                         | Pennsylvania        | Parent Co. |
| Paco Pharmaceutical Services, Inc.                     | Delaware            | 100.0      |
| Paco Packaging, Inc.                                   | Delaware            | 100.0      |
| Paco Technologies, Inc.                                | Delaware            | 100.0      |
| Paco Laboratories, Inc.                                | Delaware            | 100.0      |
| Charter Laboratories, Inc.                             | Delaware            | 100.0      |
| Paco Puerto Rico, Inc.                                 | Delaware            | 100.0      |
| Citation Plastics Co.                                  | New Jersey          | 100.0      |
| The West Company of Puerto Rico, Inc.                  | Delaware            | 100.0      |
| TWC of Florida, Incorporated                           | Florida             | 100.0      |
| Senetics, Inc.   | Colorado            | 100.0      |
| West International Sales Corporation                   | U.S. Virgin Islands | 100.0      |
| The West Company of Delaware, Inc.                     | Delaware            | 100.0      |
| The West Company de Colombia, S.A.                     | Colombia            | 52.1(1)    |
| The West Company Holding GmbH                          | Germany             | 100.0      |
| The West Company Deutschland GmbH                      | Germany             | 100.0      |
| The West Company Hispania S. A.                        | Spain               | 27.4(5)    |
| Pharma-Gummi Beograd                                   | Yugoslavia          | 84.7(2)    |
| The West Company (Custom &<br>Specialty Services) GmbH | Germany             | 100.0      |
| The West Company Danmark A/S                           | Denmark             | 100.0      |
| The West Company Italia S.R.L.                         | Italy               | 95.0(3)    |
| The West Company France S.A.                           | France              | 99.99(4)   |
| The West Company (Mauritius) Ltd.                      | Mauritius           | 100.0      |
| The West Company (India) Private Ltd.                  | India               | 100.0      |
| The West Company Group Ltd.                            | England             | 100.0      |
| The West Company (UK) Ltd.                             | England             | 100.0      |
| The West Company Argentina S.A.                        | Argentina           | 100.0      |
| The West Company Brasil S.A.                           | Brasil              | 100.0      |
| The West Company Venezuela C.A.                        | Venezuela           | 100.0      |
| The West Company Singapore Pty. Ltd.                   | Singapore           | 100.0      |
| The West Company Australia Pte. Ltd.                   | Australia           | 100.0      |
| West Company Korea Ltd.                                | Korea               | 100.0      |

- -----  
(1) In addition, 46.16% is owned directly by The West Company, Incorporated;  
1.55% is held in treasury by The West Company de Colombia S.A.

(2) Affiliated company accounted for on the cost basis.

(3) In addition, 5% is owned directly by The West Company, Incorporated;

(4) In addition, .01% is owned directly by 9 Individual Shareholders.

(5) In addition, 54.7% is owned directly by The West Company, Inc.; 17.9% is  
owned by one shareholder.

CONSENT OF INDEPENDENT ACCOUNTANTS

We consent to the incorporation by reference in this registration statement of The West Company, Incorporated on Form S-8, (Registration Nos. 2-95618, 2-45534, 33-29506, 33-32580, 33-37825, 33-61074, 33-61076, 33-12287 and 33-12289) of our report dated February 18, 1998 on our audits of the consolidated financial statements The West Company, Incorporated and subsidiaries as of December 31, 1997 and 1996, and for the years ended December 31, 1997, 1996 and 1995, which report is included in this Annual Report on Form 10-K.

COOPERS & LYBRAND

2400 Eleven Penn Center  
Philadelphia, Pennsylvania  
March 31, 1998

POWER OF ATTORNEY

The undersigned hereby authorizes and appoints William G. Little and John A. Vigna, and each of them, as her attorneys-in-fact to sign on her behalf and in her capacity as a director of The West Company, Incorporated, and to file, the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and all amendments, exhibits and supplements thereto.

Date: March 6, 1998

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/s/ Tenley E. Albright, M.D.

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Tenley E. Albright, M.D.

145

POWER OF ATTORNEY

The undersigned hereby authorizes and appoints William G. Little and John Vigna, and each of them, as his attorneys-in-fact to sign on his behalf and in his capacity as a director of The West Company, Incorporated, and to file, the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and all amendments, exhibits and supplements thereto.

Date: March 6, 1998

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/s/ John W. Conway

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John W. Conway

146

POWER OF ATTORNEY

The undersigned hereby authorizes and appoints William G. Little and John A. Vigna, and each of them, as his attorneys-in-fact to sign on his behalf and in his capacity as a director of The West Company, Incorporated, and to file, the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and all amendments, exhibits and supplements thereto.

Date: March 6, 1998

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/s/ G. W. Ebright

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George W. Ebright

POWER OF ATTORNEY

The undersigned hereby authorizes and appoints William G. Little and John A. Vigna, and each of them, as his attorneys-in-fact to sign on his behalf and in his capacity as a director of The West Company, Incorporated, and to file, the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and all amendments, exhibits and supplements thereto.

Date: March 7, 1997  
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/s/ L. Robert Johnson  
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L. Robert Johnson

POWER OF ATTORNEY

The undersigned hereby authorizes and appoints John A. Vigna, as his attorney-in-fact to sign on his behalf and in his capacity as Chief Executive Officer and a director of The West Company, Incorporated, and to file, the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and all amendments, exhibits and supplements thereto.

Date: March 6, 1998  
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/s/ William G. Little  
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William G. Little

POWER OF ATTORNEY

The undersigned hereby authorizes and appoints William G. Little and John A. Vigna, and each of them, as his attorneys-in-fact to sign on his behalf and in his capacity as a director of The West Company, Incorporated, and to file, the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and all amendments, exhibits and supplements thereto.

Date: March 6, 1998

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/s/ William H. Longfield

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William H. Longfield

POWER OF ATTORNEY

The undersigned hereby authorizes and appoints William G. Little and John A. Vigna, and each of them, as his attorneys-in-fact to sign on his behalf and in his capacity as a director of The West Company, Incorporated, and to file, the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and all amendments, exhibits and supplements thereto.

Date: March 6, 1998

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/s/ J. P. Neafsey

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John P. Neafsey

POWER OF ATTORNEY

The undersigned hereby authorizes and appoints William G. Little and John A. Vigna, and each of them, as his attorneys-in-fact to sign on his behalf and in his capacity as a director of The West Company, Incorporated, and to file, the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1996 and all amendments, exhibits and supplements thereto.

Date: March 6, 1998

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/s/ Monroe E. Trout

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Monroe E. Trout, M.D.

POWER OF ATTORNEY

The undersigned hereby authorizes and appoints William G. Little and John A. Vigna, and each of them, as his attorneys-in-fact to sign on his behalf and in his capacity as a director of The West Company, Incorporated, and to file, the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and all amendments, exhibits and supplements thereto.

Date: March 6, 1998

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/s/ Anthony Welters

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Anthony Welters

POWER OF ATTORNEY

The undersigned hereby authorizes and appoints William G. Little and John A. Vigna, and each of them, as his attorneys-in-fact to sign on his behalf and in his capacity as a director of The West Company, Incorporated, and to file, the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and all amendments, exhibits and supplements thereto.

Date: March 6, 1998  
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/s/ J. Roffe Wike, II  
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J. Roffe Wike, II

POWER OF ATTORNEY

The undersigned hereby authorizes and appoints William G. Little and John A. Vigna, and each of them, as his attorneys-in-fact to sign on his behalf and in his capacity as a director of The West Company, Incorporated, and to file, the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 1997 and all amendments, exhibits and supplements thereto.

Date: March 6, 1998

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/s/ Geoffrey F. Worden

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Geoffrey F. Worden



|         | 12-MOS<br>DEC-31-1996 | 3-MOS<br>DEC-31-1996 | 6-MOS<br>DEC-31-1996 | 9-MOS<br>DEC-31-1996 | 12-MOS<br>DEC-31-1995 |
|---------|-----------------------|----------------------|----------------------|----------------------|-----------------------|
|         | DEC-31-1996           | MAR-31-1996          | JUN-30-1996          | SEP-30-1996          | DEC-31-1995           |
|         | 27,300                | 14,300               | 15,000               | 22,100               | 17,400                |
|         | 0                     | 0                    | 0                    | 0                    | 0                     |
|         | 69,300                | 69,800               | 72,200               | 68,700               | 67,900                |
|         | 0                     | 0                    | 0                    | 0                    | 0                     |
|         | 44,000                | 50,400               | 49,200               | 45,100               | 48,300                |
|         | 156,700               | 16,900               | 12,700               | 11,800               | 148,400               |
|         | 431,600               | 426,900              | 429,800              | 434,900              | 440,100               |
|         | 221,300               | 215,400              | 218,600              | 233,700              | 210,800               |
|         | 477,400               | 469,700              | 467,400              | 468,000              | 480,100               |
| 65,600  | 73,800                | 67,800               | 74,700               | 61,800               |                       |
| 0       | 98,400                | 97,900               | 106,900              | 95,000               | 114,300               |
|         | 0                     | 0                    | 0                    | 0                    | 0                     |
|         | 4,200                 | 4,200                | 4,200                | 4,200                | 4,200                 |
|         | 247,800               | 237,700              | 233,500              | 239,600              | 249,900               |
| 477,400 | 469,700               | 467,400              | 468,000              | 480,100              |                       |
|         | 458,800               | 458,800              | 458,800              | 458,800              | 458,800               |
|         | 113,900               | 113,900              | 113,900              | 113,900              | 113,900               |
|         | 332,700               | 332,700              | 332,700              | 332,700              | 332,700               |
|         | 82,600                | 82,600               | 82,600               | 82,600               | 82,600                |
|         | 169,700               | 169,700              | 169,700              | 169,700              | 169,700               |
|         | 251,400               | 251,400              | 251,400              | 251,400              | 251,400               |
|         | 294,700               | 294,700              | 294,700              | 294,700              | 294,700               |
|         | 21,100                | 21,100               | 21,100               | 21,100               | (1,500)               |
|         | 0                     | 0                    | 0                    | 0                    | 0                     |
|         | 6,900                 | 1,600                | 3,400                | 5,400                | 7,300                 |
|         | 25,800                | (10,800)             | 1,300                | 11,000               | 42,500                |
|         | 10,800                | (2,400)              | 2,200                | 5,900                | 13,900                |
| 16,400  | (8,200)               | (100)                | 6,500                | 28,700               |                       |
|         | 0                     | 0                    | 0                    | 0                    | 0                     |
|         | 0                     | 0                    | 0                    | 0                    | 0                     |
|         | 0                     | 0                    | 0                    | 0                    | 0                     |
|         | 16,400                | (8,200)              | (100)                | 6,500                | 28,700                |
|         | 1.00                  | (.49)                | .00                  | .40                  | 1.73                  |
|         | .99                   | (.49)                | .0                   | .40                  | 1.71                  |

|         | 12-MOS<br>DEC-31-1997 | 3-MOS<br>DEC-31-1997 | MAR-31-1997 |
|---------|-----------------------|----------------------|-------------|
|         | 52,300                |                      | 28,900      |
|         | 0                     |                      | 0           |
|         | 60,400                |                      | 76,800      |
|         | 0                     |                      | 0           |
|         | 38,300                |                      | 43,700      |
|         | 19,700                |                      | 17,900      |
|         | 428,600               |                      | 424,100     |
|         | 226,400               |                      | 221,800     |
|         | 477,900               |                      | 476,500     |
| 58,000  |                       | 69,700               |             |
|         | 87,400                |                      | 90,600      |
| 0       |                       | 0                    |             |
|         | 0                     |                      | 0           |
|         | 4,200                 |                      | 4,200       |
|         | 273,500               |                      | 249,200     |
| 477,900 |                       | 476,500              |             |
|         | 452,500               |                      | 114,700     |
| 452,500 |                       | 114,700              |             |
|         | 320,400               |                      | 82,000      |
|         | (1,100)               |                      | (300)       |
|         | 0                     |                      | 0           |
|         | 5,600                 |                      | 1,400       |
|         | 57,400                |                      | 13,600      |
|         | 13,300                |                      | 5,200       |
| 44,400  |                       | 8,400                |             |
|         | 0                     |                      | 0           |
|         | 0                     |                      | 0           |
|         | 0                     |                      | 0           |
|         | 44,400                |                      | 8,400       |
|         | 2.69                  |                      | .51         |
|         | 2.68                  |                      | .51         |

|         | 6-MOS<br>DEC-31-1997 | 9-MOS<br>DEC-31-1997 |  |
|---------|----------------------|----------------------|--|
|         | JUN-30-1997          | SEP-30-1997          |  |
|         | 41,400               | 53,100               |  |
|         | 0                    | 0                    |  |
|         | 70,800               | 62,400               |  |
|         | 0                    | 0                    |  |
|         | 40,100               | 39,600               |  |
|         | 15,400               | 19,500               |  |
|         | 428,300              | 431,600              |  |
|         | 226,900              | 231,700              |  |
|         | 475,600              | 485,800              |  |
| 64,200  | 66,400               |                      |  |
|         | 89,100               | 88,000               |  |
| 0       | 0                    | 0                    |  |
|         | 4,200                | 4,200                |  |
|         | 255,200              | 270,600              |  |
| 475,600 | 485,800              |                      |  |
|         | 237,800              | 343,000              |  |
| 237,800 | 168,800              | 244,800              |  |
|         | 168,800              | 244,800              |  |
|         | (500)                | (1,400)              |  |
|         | 0                    | 0                    |  |
|         | 2,800                | 4,200                |  |
|         | 29,600               | 42,000               |  |
|         | 11,300               | 6,700                |  |
| 18,200  | 35,200               |                      |  |
|         | 0                    | 0                    |  |
|         | 0                    | 0                    |  |
|         | 0                    | 0                    |  |
|         | 18,500               | 35,200               |  |
|         | 1.12                 | 2.18                 |  |
|         | 1.12                 | 2.18                 |  |