BRINKS CO
Form 10-Q
November 03, 2006

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

x **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the quarterly period ended September 30, 2006

¨ **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the transition period from ______ to ______

Commission file number 1-9148

THE BRINK S COMPANY

(Exact name of registrant as specified in its charter)

Virginia	**54-1317776**
(State or other jurisdiction of incorporation or organization)	**(I.R.S. Employer Identification No.)**

1801 Bayberry Court, Richmond, Virginia 23226-8100

(Address of principal executive offices) (Zip Code)

Registrant s telephone number, including area code: (804) 289-9600

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 whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer x Accelerated Filer ¨ Non-Accelerated Filer ¨

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

As of November 1, 2006, 48,505,239 shares of $1 par value common stock were outstanding.

Part I - Financial Statements

THE BRINK S COMPANY

and subsidiaries

Consolidated Balance Sheets

(In millions)		September 30, 2006 (Unaudited)	December 31, 2005
ASSETS			
Current assets:			
Cash and cash equivalents	$	138.5	96.2
Marketable securities		16.6	
Accounts receivable, net		459.9	419.1
Prepaid expenses and other		69.4	36.0
Deferred income taxes		77.4	174.0
Assets held for sale			976.5
Total current assets		761.8	1,701.8
Property and equipment, net		941.9	867.4
Goodwill		113.8	103.8
Prepaid postretirement benefits other than pensions		112.4	
Deferred income taxes		132.6	196.9
Other assets		197.6	167.0
Total assets	$	2,260.1	3,036.9
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities:			
Short-term borrowings	$	28.1	25.5
Current maturities of long-term debt		9.8	35.5
Accounts payable		138.4	118.8
Income taxes payable		56.7	14.8
Accrued liabilities		400.8	439.8
Liabilities held for sale			491.4
Total current liabilities		633.8	1,125.8
Long-term debt		144.7	251.9
Accrued pension costs		181.7	170.0
Postretirement benefits other than pensions		210.5	304.8
Deferred revenue		160.8	150.7
Deferred income taxes		17.5	18.8
Other liabilities		188.2	177.4
Total liabilities		1,537.2	2,199.4
Commitments and contingent liabilities (notes 2 and 13)			
Shareholders equity:			
Common stock		48.6	58.7
Capital in excess of par value		411.4	530.6
Retained earnings		431.7	488.0
Accumulated other comprehensive loss		(168.8)	(184.6)
Employee benefits trust, at market value			(55.2)

Total shareholders equity		722.9	837.5
Total liabilities and shareholders equity	$	2,260.1	3,036.9

See accompanying notes to consolidated financial statements.

THE BRINK S COMPANY

and subsidiaries

Consolidated Statements of Operations

(Unaudited)

(In millions, except per share amounts)	Three Months Ended September 30, 2006	2005	Nine Months Ended September 30, 2006	2005
Revenues	$ 720.6	651.3	2,081.7	1,885.9
Expenses:				
Operating expenses	548.5	500.5	1,607.6	1,512.6
Selling, general and administrative expenses	121.9	112.4	341.0	290.7
Total expenses	670.4	612.9	1,948.6	1,803.3
Other operating income, net	1.9	5.6	5.0	8.7
Operating profit	52.1	44.0	138.1	91.3
Interest expense	(4.0)	(4.2)	(10.8)	(14.0)
Interest and other income, net	4.0	2.8	14.1	7.1
Minority interest	(4.1)	(4.0)	(11.2)	(10.3)
Income from continuing operations before income taxes	48.0	38.6	130.2	74.1
Provision for income taxes	23.2	15.2	60.0	38.0
Income from continuing operations	24.8	23.4	70.2	36.1
Income from discontinued operations, net of tax	1.7	42.4	390.4	58.6
Net income	$ 26.5	65.8	460.6	94.7
Earnings per share:				
Basic:				
Continuing operations	$ 0.53	0.41	1.37	0.64
Discontinued operations	0.04	0.75	7.62	1.05
Net income	0.57	1.17	8.99	1.69
Diluted:				
Continuing operations	$ 0.53	0.41	1.36	0.64
Discontinued operations	0.04	0.74	7.55	1.03
Net income	0.56	1.15	8.91	1.67
Weighted-average common shares outstanding:				
Basic	46.7	56.4	51.2	56.0
Diluted	47.2	57.1	51.7	56.7
Cash dividends paid per common share	$ 0.0625	0.0250	0.1500	0.0750

See accompanying notes to consolidated financial statements.

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THE BRINK S COMPANY

and subsidiaries

Consolidated Statement of Shareholders Equity

Nine months ended September 30, 2006

(Unaudited)

(In millions)	**Common Stock**	**Capital in Excess of Par Value**	**Retained Earnings**	**Employee Benefits Trust**	**Accumulated Other Comprehensive Loss**	**Total**
Balance as of December 31, 2005	$ 58.7	530.6	488.0	(55.2)	(184.6)	837.5
Net income			460.6			460.6
Other comprehensive income					15.8	15.8
Shares repurchased (see note 3):						
Dutch Auction self tender offer	(10.4)	(89.0)	(431.5)			(530.9)
Other	(1.7)	(15.4)	(78.2)			(95.3)
Dividends			(7.2)			(7.2)
Reclassify employee benefits trust (see note 1)		(55.2)		55.2		
Distributions for benefit programs		22.2				22.2
Shares issued to trust	2.0	(2.0)				
Stock-based compensation		15.7				15.7
Tax benefit of stock options exercised		4.5				4.5
Balance as of September 30, 2006	$ 48.6	411.4	431.7		(168.8)	722.9

See accompanying notes to consolidated financial statements

THE BRINK S COMPANY

and subsidiaries

Consolidated Statements of Cash Flows

(Unaudited)

(In millions)	**Nine Months Ended September 30, 2006**	**2005**
Cash flows from operating activities:		
Net income	$ 460.6	94.7
Adjustments to reconcile net income to net cash provided by operating activities:		
Income from discontinued operations, net of tax	(390.4)	(58.6)
Depreciation and amortization	121.7	110.4
Impairment charges from subscriber disconnects	35.7	32.9
Amortization of deferred revenue	(23.6)	(21.7)
Deferred income taxes	148.5	20.6
Provision for uncollectible accounts receivable	8.6	0.3
Stock-based compensation	9.1	
Other operating, net	17.3	15.6
Postretirement benefit funding (more) less than expense:		
Pension	11.7	28.7
Other than pension	(249.1)	(8.4)
Changes in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(53.6)	(36.5)
Accounts payable and accrued liabilities	(145.0)	9.4
Deferred subscriber acquisition cost	(18.5)	(16.9)
Deferred revenue from new subscribers	33.5	30.2
Prepaid and other current assets	(21.3)	(9.6)
Other, net	5.2	(8.9)
Discontinued operations, net	0.1	113.9
Net cash provided (used) by operating activities	(49.5)	296.1
Cash flows from investing activities:		
Capital expenditures	(204.6)	(193.5)
Acquisitions	(12.4)	(51.3)
Marketable securities:		
Purchases	(1,662.6)	(7.1)
Sales	1,636.9	0.9
Proceeds from disposal of:		
BAX Global, net of $90.3 million of cash disposed	1,010.5	
Coal business		5.0
Other, net	2.4	1.7
Discontinued operations, net	(5.2)	(58.1)
Net cash provided (used) by investing activities	765.0	(302.4)
Cash flows from financing activities:		
Long term debt:		
Additions	82.5	89.9
Repayments	(226.5)	(84.9)
Short-term borrowings (repayments), net	(0.6)	24.6
Repurchase shares of common stock of The Brink s Company	(618.5)	
Dividends to:		

Shareholders of The Brink s Company	(7.2)	(4.2)
Minority interest shareholders of subsidiaries	(8.8)	(6.3)
Proceeds from exercise of stock options	17.8	10.2
Excess tax benefits from exercise of stock options	3.7	
Other, net	(2.4)	(1.0)
Discontinued operations, net	5.4	(0.3)
Net cash provided (used) by financing activities	(754.6)	28.0
Effect of exchange rate changes on cash	2.8	(5.6)
Cash and cash equivalents:		
Increase (decrease)	(36.3)	16.1
Balance at beginning of period	96.2	169.0
Amount held by BAX Global at December 31, 2005	78.6	
Balance at end of period	$ 138.5	185.1

See accompanying notes to consolidated financial statements.

THE BRINK S COMPANY

and Subsidiaries

Notes to Consolidated Financial Statements

(Unaudited)

Note 1 - Basis of presentation

The Brink s Company (along with its subsidiaries, the Company) has two operating segments:

Brink s, Incorporated (Brink s)

Brink s Home Security, Inc. (BHS)

In January 2006, the Company sold BAX Global Inc. (BAX Global), a wholly owned freight transportation subsidiary of the Company, for approximately $1.1 billion in cash. Accordingly, BAX Global s results of operations have been reported as discontinued operations for all periods presented. BAX Global s assets and liabilities at December 31, 2005, have been classified as held for sale.

The Company also has significant liabilities associated with its former coal operations and expects to have significant ongoing expenses and cash outflows related to these operations.

The Company s unaudited consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles (GAAP) for interim financial reporting and applicable quarterly reporting regulations of the Securities and Exchange Commission (the SEC). Accordingly, the unaudited consolidated financial statements do not include all of the information and notes required by GAAP for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Certain prior-period amounts have been reclassified to conform to the current period s financial statement presentation. Operating results for interim periods are not necessarily indicative of the results that may be expected for the full year. For further information, refer to the Company s Annual Report on Form 10-K for the year ended December 31, 2005.

In accordance with GAAP, management of the Company has made a number of estimates and assumptions relating to the reporting of assets and liabilities and the disclosure of contingent assets and liabilities to prepare these consolidated financial statements. Actual results could differ materially from those estimates. The most significant estimates used by management are related to goodwill and other long-lived assets, pension and other postretirement benefit obligations, and deferred tax assets.

New Accounting Standards

Adopted Standards

The Company adopted Statement of Financial Accounting Standard (SFAS) 123(R), Share-Based Payment, effective January 1, 2006. Prior to adopting SFAS 123(R), the Company accounted for share-based compensation using the intrinsic-value method under Accounting Principles Board Opinion 25, Accounting for Stock Issued to Employees, (APB 25) as permitted by SFAS 123, Accounting for Stock-based Compensation. Under the intrinsic-value method no share-based compensation cost was recognized as all options granted had an exercise price equal to the market value of the underlying common stock on the date of grant. SFAS 123(R) eliminates the use of the intrinsic-value method of accounting and requires companies to recognize the cost of employee services received in exchange for awards of equity instruments based on the fair value of those awards. In addition, SFAS 123(R) requires additional accounting and disclosures for the income tax and cash flow effects of share-based payment arrangements.

The Company adopted SFAS 123(R) using the modified prospective transition method. Under the modified prospective transition method, the Company began recognizing share-based compensation costs on January 1, 2006, but did not restate prior periods. The amount of compensation cost recognized was computed based on the requirements of SFAS 123(R) for share-based awards granted in 2006, and based on the requirements of SFAS 123 for unvested awards granted prior to 2006. Under SFAS 123(R), cash flows from the tax benefit of tax deductions for stock options in excess of the compensation cost recognized are classified in the consolidated statements of cash flows as a financing activity. Under SFAS 123, these cash flows were included in operating activities and the prior-year amounts have not been reclassified. In addition, under SFAS 123(R), the Company no longer separately reports The Brink s Company Employee Benefits Trust (the Employee Benefits Trust) in its consolidated statement of shareholders equity and consolidated balance sheet; it is now offset with capital in excess of par value. See note 6 for more information.

Accounting standards not yet adopted

In July 2006, the Financial Accounting Standards Board (the FASB) issued FASB Interpretation 48, Accounting for Uncertainty in Income Taxes an interpretation of SFAS 109. This interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity s financial statements in accordance with SFAS 109, Accounting for Income Taxes. It prescribes a recognition threshold and measurement attribute for financial statement disclosure of tax positions taken or expected to be taken on a tax return. The Company is required to adopt this interpretation in the first quarter of 2007. The Company is currently evaluating the requirements of this interpretation and has not yet determined the impact on the consolidated financial statements.

In September 2006, the FASB issued SFAS 157, Fair Value Measurements. SFAS 157 defines fair value, establishes a framework for measuring fair value under GAAP, and expands disclosures about fair value measurements. SFAS 157 emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and states that a fair value measurement should be determined based on assumptions that market participants would use in pricing the asset or liability. The Company is required to adopt SFAS 157 in the first quarter of 2008. The Company is currently assessing the financial impact of SFAS 157 on its consolidated financial statements.

In September 2006, the FASB issued SFAS 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R). SFAS 158 requires companies to recognize the overfunded or underfunded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its balance sheet and to recognize changes in that funded status through comprehensive income in the year in which the changes occur. The Company is required to adopt this provision of SFAS 158 and to provide the required disclosures as of December 31, 2006. The adoption of SFAS 158 is expected to materially reduce the amount of consolidated equity reported by the Company as of December 31, 2006, but the amount of the reduction will depend on market interest rates and other assumptions in effect on December 31, 2006. If the provisions of SFAS 158 had been applied at December 31, 2005, consolidated net equity would have been reduced by approximately $250 million.

In September 2006, the SEC issued Staff Accounting Bulletin 108 (SAB 108), which is codified as SAB Topic 1N, Considering the Effects of Prior Year Misstatements when Quantifying Misstatements in Current Year Financial Statements. SAB 108 requires companies to quantify misstatements using a balance sheet and income statement approach and to evaluate whether either approach results in an error that is material in light of relevant quantitative and qualitative factors. The Company is required to adopt SAB 108 for its financial statements in the fourth quarter for the year ending December 31, 2006. The Company believes that the initial adoption of SAB 108 will not have a material impact on its consolidated financial statements.

Note 2 - Discontinued operations

(In millions)	Three Months Ended September 30, 2006	2005	Nine Months Ended September 30, 2006	2005
BAX Global:				
Gain on sale	$ (0.6)		587.7	
Results of operations		21.1	7.0	42.9
Adjustments to contingent liabilities of former operations:				
Withdrawal liabilities (see note 13)			9.9	6.1
Reclamation liabilities (see note 13)	0.2		0.5	(4.8)
Other	0.8	(0.2)	0.2	0.3
Income from discontinued operations before income taxes	0.4	20.9	605.3	44.5
Benefit (provision) for income taxes	1.3	21.5	(214.9)	14.1
Income from discontinued operations	$ 1.7	42.4	390.4	58.6

As described in note 1, on January 31, 2006, the Company sold BAX Global for approximately $1.1 billion in cash. In the nine months ended September 30, 2006, the Company recorded a pretax gain of approximately $588 million ($376 million after tax) on the sale. The Company has either retained or indemnified the purchaser for certain costs and contingencies including those for taxes and for a matter currently in litigation as discussed in note 13. The resolution of these matters is expected to take several years.

BAX Global s results of operations have been reported as discontinued operations for all periods presented. The following table shows selected financial information included in discontinued operations for the month ended January 31, 2006, and the three and nine months ended September 30, 2005.

(In millions)	One Month Ended January 31, 2006	Three Months Ended September 30, 2005	Nine Months Ended September 30, 2005
BAX Global:			
Revenues	$ 230.0	738.0	2,042.9
Pretax income	7.0	21.1	42.9

In accordance with SFAS 144, Accounting for the Impairment or Disposal of Long-Lived Assets, BAX Global ceased depreciating and amortizing long-lived assets after November 2005, the date that BAX Global was classified as held for sale. Had BAX Global not ceased depreciation and amortization, its pretax income in January 2006 would have been $3.7 million.

Interest expense included in discontinued operations was $0.2 million in January 2006, $0.5 million in the third quarter of 2005 and $1.4 million in the first nine months of 2005. Interest expense recorded in discontinued operations includes only interest on third-party borrowings made directly by BAX Global. The Company has not allocated other consolidated interest expense to discontinued operations.

See note 12 for a discussion of income tax matters related to discontinued operations.

Note 3 Capital stock

At September 30, 2006, the Company had 100 million shares of common stock authorized and 48.6 million shares issued and outstanding. Of the outstanding shares, 2.3 million shares held by the Employee Benefits Trust at September 30, 2006, have been accounted for similarly to treasury stock for earnings per share calculation purposes. In July 2006, the Company s board of directors approved the issuance of 2.0 million additional shares to the Employee Benefits Trust. The shares were issued in August 2006 and are included in the September 30 amount above.

As discussed below, the Company purchased and retired a total of 12.2 million shares of its own common stock pursuant to a $530 million Dutch auction self-tender offer in April 2006, and $100 million of subsequent open market purchases made between May 22 and October 5, 2006. The shares purchased and retired represented 21% of the number of shares outstanding at December 31, 2005.

Dutch Auction

On March 8, 2006, the Company s board of directors authorized a Dutch Auction self-tender offer to purchase up to 10,000,000 shares of the Company s common stock. Under certain circumstances up to an additional 2% of the outstanding common stock was authorized to be purchased in the tender offer. The tender offer began on March 9, 2006, and expired on April 6, 2006, and was subject to the terms and conditions described in the offering materials mailed to the Company s shareholders and filed with the SEC. On April 11, 2006, the Company purchased 10,355,263 shares in the tender offer at $51.20 per share for a total of approximately $530.2 million in cash. The Company incurred $0.7 million in costs associated with the purchase.

Other repurchases

Following the self-tender offer, the board authorized up to $100 million of additional purchases of outstanding Company common stock from time to time as market conditions warranted and as covenants under existing agreements permitted. The additional stock purchase program did not require any specific number of shares be purchased. Under the program, the Company purchased $100 million of common stock between May and October 5, 2006, representing 1,823,118 shares at an average price of $54.85 per share. Of these shares, through September 30, 2006, the Company purchased 1,692,600 shares at an average $54.98 per share for a total of $93.1 million under this program. From October 1, 2006, to October 5, 2006, the Company purchased another 130,518 shares at an average price of $53.19 per share for a total of $6.9 million under this program. The Company has no remaining authority under the program as of October 5, 2006.

The Company has the authority to issue up to 2.0 million shares of preferred stock, par value $10 per share.

Note 4 Long-term debt

The Company made scheduled payments of $18.3 million in January 2006 related to its Senior Notes. On March 31, 2006, the Company prepaid in full the outstanding $58.4 million balance of its Senior Notes and made a make-whole payment of $1.6 million. The Senior Notes were cancelled upon prepayment.

The Company entered into a new unsecured $400 million revolving bank credit facility with a syndicate of banks (the Revolving Facility) in the third quarter of 2006. The new facility replaces a $400 million revolving credit facility that was scheduled to mature in 2009 and that was terminated during the third quarter. The new facility s interest rate is based on LIBOR plus a margin, prime rate, or competitive bid. The facility allows the Company to borrow (or otherwise satisfy credit needs) on a revolving basis over a five-year term ending in August 2011. As of September 30, 2006, $330.4 million was available under the revolving credit facility.

The Revolving Facility contains various financial and other covenants. The financial covenants, among other things, limit the Company s total indebtedness, limit the use of proceeds on sales of assets and provide for minimum coverage of interest costs. The credit agreements do not provide for the accelerations of payments should the Company s credit rating be reduced. If the Company were not to comply with the terms of its various loan agreements, the repayment terms could be accelerated and the commitment could be withdrawn. An acceleration of the repayment terms under one agreement could trigger the acceleration of the repayment terms under other loan agreements. The Company was in compliance with all financial covenants at September 30, 2006.

Note 5 Marketable securities

At September 30, 2006, the Company held marketable securities of $40.3 million including $16.6 million of variable-rate demand notes issued by government agencies. The interest rates on the variable-rate demand notes adjust periodically, usually every 7 days, based on market conditions. The Company generally can redeem the notes for face value on each interest rate adjustment date. The Company accounts for marketable securities in accordance with SFAS 115, Accounting for Certain Investments in Debt and Equity Securities. These marketable securities have been classified as available-for-sale securities and are reported at fair value. Unrealized gains and losses, if any, are recognized in other comprehensive income (loss) and realized gains and losses are recognized in earnings. Unrealized gains and losses reclassified from accumulated other comprehensive loss to earnings were not significant for the three and nine months ended September 30, 2006 and 2005.

The information below reconciles the cost of investments to their fair value as of September 30, 2006.

(In millions)	Cost	Gross unrealized holding gains	Gross unrealized holding losses	Fair Value
September 30, 2006				
Government debt securities	$ 16.6			16.6
Equity securities	21.8	1.9		23.7
Marketable securities	$ 38.4	1.9		40.3
Included in:				
Current, included in marketable securities	$ 16.6			16.6
Noncurrent, included in other assets	21.8	1.9		23.7
Marketable securities	$ 38.4	1.9		40.3

The contractual maturities of debt securities holdings at September 30, 2006, were:

(In millions)	Cost	Fair value
Due after 1 through 5 years	$ 1.8	1.8
Due after 10 years	14.8	14.8
Total	$ 16.6	16.6

Note 6 Share-based compensation plans

In May 2005, the shareholders of the Company approved the 2005 Equity Incentive Plan (the 2005 Plan) as the successor plan to the 1988 Stock Option Plan (the 1988 Plan). As a result, options will no longer be granted under the 1988 Plan. The 2005 Plan permits grants of options and also allows for grants of restricted stock and restricted stock units as well as performance units and other share-based awards. No share-based awards other than stock options have been granted under the 2005 Plan. The Company also has a Non-Employee Directors Stock Option Plan (the Directors Plan).

Options are granted at a price not less than the average quoted market price on the date of grant. All grants in the last three years under the 2005 Plan and the 1988 Plan have a maximum term of six years and generally either vest over three years from the date of grant or vest 100% at the end of the third year. Directors Plan options are granted with a maximum term of ten years and vest in full at the end of six months. There are 4.0 million shares underlying options that are authorized, but not yet granted. The Company uses shares from the Employee Benefits Trust for stock option exercises. Although it has not expressed any intent to do so, the Company has the right to amend, suspend, or terminate the 1988 Plan or 2005 Plan at any time by action of the Company s board of directors.

As discussed in note 1, the Company adopted SFAS 123(R) on January 1, 2006. The effect of adopting SFAS 123(R) on the consolidated statements of operations for the three and nine months ended September 30, 2006, is as follows:

(In millions, except per share amounts)	**Three Months Ended September 30, 2006**	**Nine Months Ended September 30, 2006**
Selling, general and administrative expense	$ 6.1	9.1
Income from continuing operations before income taxes	(6.1)	(9.1)
Provision for income taxes	(2.2)	(3.3)
Income from continuing operations	(3.9)	(5.8)
Income from discontinued operations, net of taxes of $1.8 (a)		(4.8)
Net income	$ (3.9)	(10.6)
Net income per common share:		
Basic	$ (0.08)	(0.21)
Diluted	(0.08)	(0.21)

(a) In conjunction with the sale of BAX Global in the first quarter of 2006, 328,247 options held by BAX Global employees were modified to become immediately vested. This modification resulted in additional pretax compensation expense of $6.6 million ($4.8 million after tax) and is included in the calculation of the gain on sale of BAX Global. The weighted-average exercise price of these options was $25.67. All of the accelerated options have been exercised.

The following table illustrates the pro forma effect on net income and earnings per share if the fair value based method under SFAS 123 had been applied in the 2005 periods:

(In millions, except per share amounts)	**Three Months Ended September 30, 2005**	**Nine Months Ended September 30, 2005**
Net income:		
As reported	$ 65.8	94.7
Less: share-based compensation expense determined under fair-value method, net of related tax effects	(1.2)	(2.9)
Pro forma	$ 64.6	91.8
Net income per share:		
Basic, as reported	$ 1.17	1.69
Basic, pro forma	1.15	1.64
Diluted, as reported	$ 1.15	1.67
Diluted, pro forma	1.13	1.62

The fair value of each stock option grant is estimated at the time of grant using the Black-Scholes option-pricing model. If a different option-pricing model had been used, results may have been different.

The fair value of options that vest entirely at the end of a fixed period, generally three years, is estimated using a single option approach and generally amortized on a straight-line basis over the vesting period. The fair value of options that vest ratably over three years is estimated using a multiple-option approach and generally amortized on a straight-line basis over each separate vesting period. Upon adoption of SFAS 123(R), compensation cost related to new stock option grants that vest upon a participant reaching retirement eligibility is recognized over the period from the grant date up to the retirement-eligible date. If the Company had applied this provision prior to the adoption of 123(R), compensation cost would have been $0.3 million lower in the third quarter of 2006 and $1.4 million lower in the first nine months of 2006.

The fair value of options granted during the 2005 and 2006 periods was calculated using the following estimated weighted average assumptions**.**

	Three Months Ended September 30, 2006	2005	Nine Months Ended September 30, 2006	2005
Options Granted				
Number of shares underlying options, in thousands	600	689	610	689
Weighted-average exercise price per share	$ 55.21	35.80	55.11	35.80
Assumptions used to estimate fair value:				
Expected dividend yield:				
Weighted-average	0.5%	0.5%	0.5%	0.5%
Range	0.5%	0.5%	0.5%	0.5%
Expected volatility:				
Weighted-average	32%	34%	32%	34%
Range	30%-36%	34%	30%-36%	34%
Risk-free interest rate:				
Weighted-average	5.0%	3.8%	5.0%	3.8%
Range	4.7%-5.2%	3.8%-4.0%	4.6%-5.2%	3.8%-4.0%
Expected term in years:				
Weighted-average	4.3	4.1	4.3	4.1
Range	2.75-7.0	3.0-7.0	2.75-7.0	3.0-7.0
Forfeiture-rate	8%		8%	
Weighted-average fair value estimates at grant date				
In millions	$ 10.8	7.7	11.0	7.7
Fair value per share	$ 18.08	11.16	18.04	11.16

In the first quarter of 2006, the Company recognized compensation expense related to all options held by employees of BAX Global that were modified to accelerate vesting provisions. The fair value of options accelerated during the first quarter of 2006 was calculated using the following estimated weighted-average assumptions.

		Three Months Ended March 31, 2006
Options Modified		
Number of shares underlying options, in thousands		328
Weighted-average exercise price per share	$	25.67
Assumptions used to estimate fair value:		
Expected dividend yield:		
Weighted average		0.3%
Range		0.2% to 0.3%
Expected volatility:		
Weighted-average		29.1%
Range		25.7 to 32.1%
Risk-free interest rate:		
Weighted-average		4.1%
Range		3.7 to 4.7%
Expected term in years:		
Weighted-average		0.5
Range		0.3 - 0.7
Forfeiture rate		
Weighted-average fair value estimates at modification date:		
In millions	$	6.6
Fair value per share	$	20.11

The expected dividend yield was calculated by annualizing the cash dividend declared by the Company for the most recent period equal to the expected term and dividing that result by the closing stock price on the date of declaration. Dividends are not paid on options.

The expected volatility was estimated after reviewing the historical volatility of the Company s stock using daily close prices.

The risk-free interest rate was based on yields on U.S. Treasury debt at the time of the grant or modification.

The expected term of the op