

APTARGROUP INC  
Form 10-Q  
November 01, 2017  
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2017

OR

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

FOR THE TRANSITION PERIOD FROM                      TO

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COMMISSION FILE NUMBER 1-11846

AptarGroup, Inc.

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DELAWARE 36-3853103  
(State of Incorporation) (I.R.S. Employer Identification No.)

475 WEST TERRA COTTA AVENUE, SUITE E, CRYSTAL LAKE, ILLINOIS 60014

815-477-0424

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 No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company or an emerging growth company. See the definitions of "large accelerated filer", "accelerated filer", "smaller reporting company" and "emerging growth company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer	Accelerated filer	Non-accelerated filer	Smaller reporting company	Emerging growth company
		(Do not check if a smaller reporting company)		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

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Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding at October 26, 2017
Common Stock, \$.01 par value per share	62,293,828 shares

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Quarter Ended September 30, 2017

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## PART I – FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

AptarGroup, Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

In thousands, except per share amounts

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net Sales	\$ 624,326	\$ 589,729	\$ 1,843,388	\$ 1,792,066
Operating Expenses:				
Cost of sales (exclusive of depreciation and amortization shown below)	408,081	381,041	1,192,967	1,145,107
Selling, research & development and administrative	95,748	86,695	292,923	285,841
Depreciation and amortization	40,087	39,667	114,660	115,944
	543,916	507,403	1,600,550	1,546,892
Operating Income	80,410	82,326	242,838	245,174
Other (Expense) Income:				
Interest expense	(9,733)	(8,753)	(25,707)	(26,547)
Interest income	1,113	715	2,086	1,759
Equity in results of affiliates	(72)	(15)	(142)	(187)
Miscellaneous, net	(2,200)	728	(509)	(995)
	(10,892)	(7,325)	(24,272)	(25,970)
Income before Income Taxes	69,518	75,001	218,566	219,204
Provision for Income Taxes	15,989	21,901	48,043	63,187
Net Income	\$ 53,529	\$ 53,100	\$ 170,523	\$ 156,017
	\$ (6)	\$ (2)	\$ (6)	\$ (8)

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Net Income Attributable to Noncontrolling Interests

Net Income Attributable to AptarGroup, Inc.	\$ 53,523	\$ 53,098	\$ 170,517	\$ 156,009
Net Income Attributable to AptarGroup, Inc. per Common Share:				
Basic	\$ 0.86	\$ 0.84	\$ 2.73	\$ 2.48
Diluted	\$ 0.83	\$ 0.82	\$ 2.64	\$ 2.40
Average Number of Shares Outstanding:				
Basic	62,592	62,858	62,527	62,878
Diluted	64,821	64,690	64,626	64,989
Dividends per Common Share	\$ 0.32	\$ 0.30	\$ 0.96	\$ 0.90

See accompanying Unaudited Notes to Condensed Consolidated Financial Statements.

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AptarGroup, Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

In thousands

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
Net Income	\$ 53,529	\$ 53,100	\$ 170,523	\$ 156,017
Other Comprehensive Income:				
Foreign currency translation adjustments	17,903	13,792	69,505	44,239
Changes in treasury locks, net of tax	7	6	21	19
Net loss on derivatives, net of tax	(3,591)	—	(3,591)	—
Defined benefit pension plan, net of tax				
Amortization of prior service cost included in net income, net of tax	74	58	210	174
Amortization of net loss included in net income, net of tax	850	779	2,489	2,337
Total defined benefit pension plan, net of tax	924	837	2,699	2,511
Total other comprehensive income	15,243	14,635	68,634	46,769
Comprehensive Income	68,772	67,735	239,157	202,786
Comprehensive Income Attributable to Noncontrolling Interests	(11)	(1)	(18)	—
Comprehensive Income Attributable to AptarGroup, Inc.	\$ 68,761	\$ 67,734	\$ 239,139	\$ 202,786

See accompanying Unaudited Notes to Condensed Consolidated Financial Statements.



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AptarGroup, Inc.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

In thousands

	September 30, 2017	December 31, 2016
Assets		
Current Assets:		
Cash and equivalents	\$ 1,018,666	\$ 466,287
Accounts and notes receivable, less allowance for doubtful accounts of \$3,245 in 2017 and \$2,989 in 2016	510,144	433,127
Inventories	323,404	296,914
Prepaid and other	89,181	73,842
	1,941,395	1,270,170
Property, Plant and Equipment:		
Buildings and improvements	408,718	368,260
Machinery and equipment	2,168,639	1,938,352
	2,577,357	2,306,612
Less: Accumulated depreciation	(1,744,586)	(1,545,384)
	832,771	761,228
Land	25,668	23,093
	858,439	784,321
Other Assets:		
Investments in affiliates	9,485	4,241
Goodwill	439,147	407,522
Intangible assets	96,760	94,489
Miscellaneous	63,628	46,042
	609,020	552,294
Total Assets	\$ 3,408,854	\$ 2,606,785

See accompanying Unaudited Notes to Condensed Consolidated Financial Statements.

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AptarGroup, Inc.

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

In thousands, except share and per share amounts

	September 30, 2017	December 31, 2016
Liabilities and Stockholders' Equity		
Current Liabilities:		
Notes payable	\$ 109,910	\$ 169,213
Current maturities of long-term obligations, net of unamortized debt issuance costs	136,330	4,603
Accounts payable and accrued liabilities	458,797	369,139
	705,037	542,955
Long-Term Obligations, net of unamortized debt issuance costs	1,271,530	772,737
Deferred Liabilities and Other:		
Deferred income taxes	18,438	16,803
Retirement and deferred compensation plans	87,223	94,545
Deferred and other non-current liabilities	4,802	5,503
Commitments and contingencies	—	—
	110,463	116,851
Stockholders' Equity:		
AptarGroup, Inc. stockholders' equity		
Common stock, \$.01 par value, 199 million shares authorized, 66.6 and 66.0 million shares issued as of September 30, 2017 and December 31, 2016, respectively	666	660
Capital in excess of par value	599,608	546,682
Retained earnings	1,271,576	1,197,234
Accumulated other comprehensive (loss)	(251,087)	(319,709)
Less: Treasury stock at cost, 4.3 and 3.9 million shares as of September 30, 2017 and December 31, 2016, respectively	(299,249)	(250,917)
Total AptarGroup, Inc. Stockholders' Equity	1,321,514	1,173,950
Noncontrolling interests in subsidiaries	310	292
Total Stockholders' Equity	1,321,824	1,174,242
Total Liabilities and Stockholders' Equity	\$ 3,408,854	\$ 2,606,785

See accompanying Unaudited Notes to Condensed Consolidated Financial Statements.



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AptarGroup, Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

In thousands

	AptarGroup, Inc. Stockholders' Equity						
	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Common Stock Par Value	Treasury Stock	Capital in Excess of Par Value	Non-Controlling Interest	Total Equity
Balance - December 31, 2015	\$ 1,185,681	\$ (262,347)	\$ 667	\$ (270,052)	\$ 495,462	\$ 295	\$ 1,149,706
Net income	156,009	—	—	—	—	8	156,017
Foreign currency translation adjustments	—	44,247	—	—	—	(8)	44,239
Changes in unrecognized pension gains/losses and related amortization, net of tax	—	2,511	—	—	—	—	2,511
Changes in treasury locks, net of tax	—	19	—	—	—	—	19
Stock awards and option exercises	—	—	9	17,195	58,037	—	75,241
Cash dividends declared on common stock	(56,597)	—	—	—	—	—	(56,597)
Common stock repurchased and retired	(75,996)	—	(11)	—	(8,783)	—	(84,790)
	\$ 1,209,097	\$ (215,570)	\$ 665	\$ (252,857)	\$ 544,716	\$ 295	\$ 1,286,346

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Balance -  
September  
30, 2016

Balance -  
December 31,  
2016

Net income	\$ 1,197,234	\$ (319,709)	\$ 660	\$ (250,917)	\$ 546,682	\$ 292	\$ 1,174,242
Foreign currency translation adjustments	170,517	—	—	—	—	6	170,523
Changes in unrecognized pension gains/losses and related amortization, net of tax	—	69,493	—	—	—	12	69,505
Changes in treasury locks, net of tax	—	2,699	—	—	—	—	2,699
Changes in derivative gains/losses, net of tax	—	21	—	—	—	—	21
Stock awards and option exercises	—	(3,591)	—	—	—	—	(3,591)
Cash dividends declared on common stock	—	—	11	23,938	57,742	—	81,691
Treasury stock purchased	(60,002)	—	—	—	—	—	(60,002)
Common stock repurchased and retired	—	—	—	(72,270)	—	—	(72,270)
Balance - September 30, 2017	(36,173)	—	(5)	—	(4,816)	—	(40,994)
	\$ 1,271,576	\$ (251,087)	\$ 666	\$ (299,249)	\$ 599,608	\$ 310	\$ 1,321,824

See accompanying Unaudited Notes to Condensed Consolidated Financial Statements.



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AptarGroup, Inc.

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

In thousands, brackets denote cash outflows

Nine Months Ended September 30,	2017	2016
Cash Flows from Operating Activities:		
Net income	\$ 170,523	\$ 156,017
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	107,017	109,156
Amortization	7,643	6,788
Stock based compensation	15,005	17,823
Provision for doubtful accounts	124	369
Deferred income taxes	(2,265)	(661)
Defined benefit plan expense	12,932	12,632
Equity in results of affiliates	142	187
Changes in balance sheet items, excluding effects from foreign currency adjustments:		
Accounts and other receivables	(46,038)	(54,243)
Inventories	(1,392)	(11,284)
Prepaid and other current assets	(10,839)	(14,244)
Accounts payable and accrued liabilities	49,158	3,491
Income taxes payable	2,061	(595)
Retirement and deferred compensation plan liabilities	(20,621)	(14,419)
Other changes, net	(18,288)	(8,597)
Net Cash Provided by Operations	265,162	202,420
Cash Flows from Investing Activities:		
Capital expenditures	(120,803)	(92,366)
Proceeds from sale of property and equipment, including insurance proceeds	2,345	2,049
Settlement of derivative	(66,155)	—
Maturity of short-term investments	—	29,485
Acquisition of business, net of cash acquired	—	(202,985)
Acquisition of intangible assets	—	(2,491)
Investment in unconsolidated affiliate	(5,000)	—
Notes receivable, net	451	777
Net Cash Used by Investing Activities	(189,162)	(265,531)
Cash Flows from Financing Activities:		
(Repayments of) proceeds from notes payable	(63,905)	132,622
Proceeds from long-term obligations	625,525	5,950
Repayments of long-term obligations	(4,836)	(53,512)
Dividends paid	(60,002)	(56,597)
Credit facility costs	(2,937)	—

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Proceeds from stock option exercises	66,686	49,457
Purchase of treasury stock	(72,270)	—
Common stock repurchased and retired	(40,994)	(84,790)
Excess tax benefit from exercise of stock options	—	7,960
Net Cash Provided by Financing Activities	447,267	1,090
Effect of Exchange Rate Changes on Cash	29,112	4,857
Net Increase (Decrease) in Cash and Equivalents	552,379	(57,164)
Cash and Equivalents at Beginning of Period	466,287	489,901
Cash and Equivalents at End of Period	\$ 1,018,666	\$ 432,737

See accompanying Unaudited Notes to Condensed Consolidated Financial Statements.



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AptarGroup, Inc.

Notes to Condensed Consolidated Financial Statements

(Dollars in Thousands, Except per Share Amounts, or as Otherwise Indicated)

(Unaudited)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The accompanying Unaudited Condensed Consolidated Financial Statements include the accounts of AptarGroup, Inc. and our subsidiaries. The terms “AptarGroup”, “Aptar” or “Company” as used herein refer to AptarGroup, Inc. and our subsidiaries. All significant intercompany accounts and transactions have been eliminated.

In the opinion of management, the Unaudited Condensed Consolidated Financial Statements include all normal recurring adjustments necessary for a fair statement of consolidated financial position, results of operations, comprehensive income, changes in equity and cash flows for the interim periods presented. The accompanying Unaudited Condensed Consolidated Financial Statements have been prepared by the Company, pursuant to the rules and regulations of the Securities and Exchange Commission (“SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”) have been condensed or omitted pursuant to such rules and regulations, although the Company believes that the disclosures made are adequate to make the information presented not misleading. Also, certain financial position data included herein was derived from the Audited Consolidated Financial Statements included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016 but does not include all disclosures required by U.S. GAAP. Accordingly, these Unaudited Condensed Consolidated Financial Statements and related notes should be read in conjunction with the Audited Consolidated Financial Statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2016. The results of operations of any interim period are not necessarily indicative of the results that may be expected for the year.

ADOPTION OF RECENT ACCOUNTING PRONOUNCEMENTS

Changes to U.S. GAAP are established by the Financial Accounting Standards Board (“FASB”) in the form of Accounting Standards Updates (“ASUs”) to the FASB’s Accounting Standards Codification.

In May 2014, the FASB amended the guidance for recognition of revenue from customer contracts. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or

services to customers in the amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB decided to defer the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date. The FASB also decided to allow early adoption of the standard, but not before the original effective date of December 15, 2016. Subsequent to the initial standards, the FASB has also issued several ASUs to clarify specific revenue recognition topics. We continue to evaluate the impact the adoption of this standard will have on our Consolidated Financial Statements. The majority of our revenues are derived from product sales and tooling sales. We are also evaluating our service, license, exclusivity and royalty arrangements, which need to be reviewed individually to ensure proper accounting under the new standard. To date, our internal project team has reviewed a substantial portion of contracts. While we continue to assess the potential impacts of the new standard, we currently believe the pronouncement will affect the way we account for tooling contracts. We currently recognize revenue for these contracts when the title and risk of loss transfers to the customer. Under the new guidance, we expect we will be required to recognize revenue for certain contracts over the time required to build the tool. We also continue to progress in updating our internal controls along with reviewing and developing the additional disclosures required by the standard. We currently anticipate adopting the modified retrospective transition method for implementing this guidance on the standard's effective date.

In July 2015, the FASB issued new guidance for simplifying the measurement of inventory. The core principle of the guidance is that an entity should measure inventory at the lower of cost or net realizable value. This standard is effective for annual reporting periods beginning after December 15, 2016. The Company adopted the requirements of the standard and the impact was not material to our current year financial statements.

In March 2016, the FASB issued guidance that eliminates the requirement that an investor retrospectively apply equity method accounting when an investment that it had accounted for by another method initially qualifies for the equity method. The guidance requires that an equity method investor add the cost of acquiring the additional interest in the investee to the current basis of the investor's previously held interest and adopt the equity method of accounting as of the date the investment becomes qualified for equity method accounting. The new standard is effective for fiscal years and interim periods beginning after December 15, 2016. The adoption of the new rules did not have an impact on our financial statements.

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In March 2016, the FASB issued guidance that changes the accounting for certain aspects of share-based payments to employees. The guidance requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid in capital pools. The guidance also allows for the employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. The new standard is effective for fiscal years and interim periods beginning after December 15, 2016. The Company has prospectively adopted the standard resulting in \$0.5 million and \$8.8 million of additional tax deductions that would have been previously recorded in stockholders' equity now being reported as a reduction in tax expense for the three and nine months ended September 30, 2017, respectively. The amount of excess tax benefits and deficiencies recognized in the provision for income taxes will fluctuate from period to period based on the price of the Company's stock, the volume of share-based instruments settled or vested, and the value assigned to share-based instruments under U.S. GAAP. We have also prospectively adopted the standard for the presentation of the condensed consolidated statements of cash flows. The impact of excess tax benefits from exercise of stock options is now shown within cash flows from operating activities instead of cash flows from financing activities. In addition, the Company has elected to continue its current practice of estimating expected forfeitures.

In August 2017, the FASB issued new guidance to improve the accounting for hedging activities. The guidance changes the financial reporting of hedging relationships to better portray the economic results of an entity's risk management activities in its financial statements. In addition, the guidance makes certain targeted improvements to simplify the application of the hedge accounting guidance in current GAAP. The new standard is effective for fiscal years beginning after December 15, 2018 and interim periods within those fiscal years. However, early application is permitted in any interim period after the issuance of this guidance. The Company has chosen to adopt this standard in the current period. See details in Note 8 – Derivative Instruments and Hedging Activities.

Other accounting standards that have been issued by the FASB or other standards-setting bodies did not have a material impact on our Consolidated Financial Statements.

## RETIREMENT OF COMMON STOCK

During the first nine months of 2017, the Company repurchased 1.4 million shares of common stock, of which 512 thousand shares were immediately retired. During the first nine months of 2016, the Company repurchased and immediately retired 1.1 million shares of common stock. Common stock was reduced by the number of shares retired at \$0.01 par value per share. The Company allocates the excess purchase price over par value between additional paid-in capital and retained earnings.

## INCOME TAXES

The Company computes taxes on income in accordance with the tax rules and regulations of the many taxing authorities where income is earned. The income tax rates imposed by these taxing authorities may vary substantially. Taxable income may differ from pre-tax income for financial accounting purposes. To the extent that these differences create differences between the tax basis of an asset or liability and our reported amount in the financial statements, an appropriate provision for deferred income taxes is made.

The Company considers numerous factors to determine which foreign earnings are permanently reinvested in foreign operations. These include the financial requirements of the U.S. parent company and those of our foreign subsidiaries,

the U.S. funding needs for dividend payments and stock repurchases, and the tax consequences of remitting earnings to the U.S. From this analysis, current year repatriation decisions are made in an attempt to provide a proper mix of debt and stockholder capital both within the U.S. and for non-U.S. operations. During 2016, the Company decided to repatriate a portion of our 2016 and 2017 foreign earnings. In the first quarter of 2017, the Company repatriated €250 million (\$263 million) of foreign earnings, most of which was used to reduce existing debt levels and fund stock repurchases. To better balance our capital structure, the Company repatriated an additional €700 million (\$751 million) of foreign earnings in the third quarter of 2017. The Company recognized a \$5 million tax benefit for the nine months ended September 30, 2017 associated with these repatriation activities. The Company maintains its assertion that the approximately \$614 million of remaining foreign earnings are permanently reinvested. As such, the Company does not provide for taxes on these earnings.

The Company provides a liability for the amount of unrecognized tax benefits from uncertain tax positions. This liability is provided whenever the Company determines that a tax benefit will not meet a more-likely-than-not threshold for recognition. See Note 4 - Income Taxes for more information.

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## REVISION OF PRIOR PERIOD FINANCIAL STATEMENTS

During the second quarter of 2017, the Company determined that the impact of restricted stock unit (RSU) vesting was incorrectly presented in the Condensed Consolidated Statement of Cash Flows. The effect of correcting this error resulted in a reduction to Net Cash Provided by Operations with a corresponding increase to Net Cash (Used) Provided by Financing Activities. As this correction represented a reclassification between two accounts within the Condensed Consolidated Statement of Cash Flows, the Condensed Consolidated Statements of Income, the Condensed Consolidated Balance Sheet and the Condensed Consolidated Statements of Changes in Equity were not impacted by this change. The Company determined the correction was not material to previously issued financial statements but was significant enough to revise. Following is a summary of the previously issued financial statement line items impacted by this revision for all periods and statements included in this report:

	As Previously Reported	Adjustment	As Revised
Revised Consolidated Statements of Cash Flows Nine Months Ended September 30, 2016			
Retirement and deferred compensation plan liabilities	\$ (12,525)	\$ (1,894)	\$ (14,419)
Net Cash Provided by Operations	204,314	(1,894)	202,420
Proceeds from stock option exercises	47,563	1,894	49,457
Net Cash (Used) Provided by Financing Activities	(804)	1,894	1,090

## NOTE 2 - INVENTORIES

Inventories, by component, consisted of:

	September 30, 2017	December 31, 2016
Raw materials	\$ 91,192	\$ 98,014
Work in process	106,609	91,646
Finished goods	125,603	107,254
Total	\$ 323,404	\$ 296,914

### NOTE 3 – GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill since December 31, 2016 are as follows by reporting segment:

	Beauty + Home	Pharma	Food + Beverage	Corporate & Other	Total
Goodwill	\$ 211,371	\$ 180,050	\$ 16,101	\$ 1,615	\$ 409,137
Accumulated impairment losses	—	—	—	(1,615)	(1,615)
Balance as of December 31, 2016	\$ 211,371	\$ 180,050	\$ 16,101	\$ —	\$ 407,522
Foreign currency exchange effects	10,887	20,064	674	—	31,625
Goodwill	\$ 222,258	\$ 200,114	\$ 16,775	\$ 1,615	\$ 440,762

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Accumulated impairment losses	—	—	—	(1,615)	(1,615)
Balance as of September 30, 2017	\$ 222,258	\$ 200,114	\$ 16,775	\$ —	\$ 439,147

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The table below shows a summary of intangible assets as of September 30, 2017 and December 31, 2016.

Weighted Average Amortization Period (Years)	September 30, 2017			December 31, 2016			
	Gross Carrying Amount	Accumulated Amortization	Net Value	Gross Carrying Amount	Accumulated Amortization	Net Value	
Amortized intangible assets:							
Patents	0.2	\$ 7,695	\$ (7,680)	\$ 15	\$ 6,859	\$ (6,839)	\$ 20
Acquired technology	15.0	46,817	(13,610)	33,207	41,731	(10,040)	31,691
Customer relationships	12.2	68,126	(11,763)	56,363	63,006	(6,696)	56,310
License agreements and other	7.6	21,352	(14,177)	7,175	18,516	(12,048)	6,468
Total intangible assets	11.8	\$ 143,990	\$ (47,230)	\$ 96,760	\$ 130,112	\$ (35,623)	\$ 94,489

Aggregate amortization expense for the intangible assets above for the quarters ended September 30, 2017 and 2016 was \$2,708 and \$2,553, respectively. Aggregate amortization expense for the intangible assets above for the nine months ended September 30, 2017 and 2016 was \$7,643 and \$6,788, respectively.

Future estimated amortization expense for the years ending December 31 is as follows:

2017	\$ 2,572	(remaining estimated amortization for 2017)
2018	10,851	
2019	10,667	
2020	9,464	
2021 and thereafter	63,206	

Future amortization expense may fluctuate depending on changes in foreign currency rates. The estimates for amortization expense noted above are based upon foreign exchange rates as of September 30, 2017.



NOTE 4 — INCOME TAXES

The reported effective tax rate decreased to 23.0% for the three months ended September 30, 2017 compared to 29.2% for the same period ended September 30, 2016, resulting in a decrease to the Provision for Income Taxes of approximately \$6 million. The reported effective tax rate decreased to 22.0% for the nine months ended September 30, 2017 compared to 28.8% for the same period ended September 30, 2016, resulting in a decrease to the Provision for Income Taxes of approximately \$15 million. For the three months ended September 30, 2017, the decrease in the tax rate reflects a benefit of 4.5% recognized upon a foreign tax settlement. For the nine months ended September 30, 2017, the decrease in the tax rate reflects a 4.0% benefit from the new accounting standard for employee share-based compensation payments, which the Company adopted in 2017, a 1.6% benefit in connection with our repatriation activities, which was primarily related to tax benefits associated with the forward contracts discussed in Note 8 – Derivative Instruments and Hedging Activities and a 1.4% benefit from the foreign tax settlement previously mentioned.

The Company had approximately \$3.6 and \$6.4 million recorded for income tax uncertainties as of September 30, 2017 and December 31, 2016, respectively. The change is primarily attributable to a \$2.2 million reduction related to a foreign tax settlement, along with other settlements and currency fluctuations. The uncertain amounts, if recognized, that would impact the effective tax rate are \$3.6 and \$6.4 million, respectively. The Company estimates that it is reasonably possible that the liability for uncertain tax positions will decrease by no more than \$1.9 million in the next twelve months from the resolution of various uncertain positions as a result of the completion of tax audits, litigation and the expiration of the statute of limitations in various jurisdictions.

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## NOTE 5 – LONG –TERM OBLIGATIONS

During the third quarter of 2017, the Company entered into the borrowing arrangements summarized below through our wholly owned UK subsidiary to better balance our capital structure.

Debt Type	Amount	Term/Maturity	Interest Rate
Bank term loan	\$ 280,000	5 year amortizing/July 2022	2.56% floating swapped to 1.36% fixed
Bank revolver	€ 150,000	5 year/July 2022	1.10% floating
Private placement	€ 100,000	6 year/July 2023	0.98% fixed
Private placement	€ 200,000	7 year/July 2024	1.17% fixed

The Company also maintains a 5-year revolving credit facility that provides for unsecured financing of up to \$300 million and matures in July 2022.

Our revolving credit facility and corporate long-term obligations require us to satisfy certain financial and other covenants including:

	Requirement	Level at September 30, 2017
Consolidated Leverage Ratio (a)	Maximum of 3.50 to 1.00	1.17 to 1.00
Consolidated Interest Coverage Ratio (a)	Minimum of 3.00 to 1.00	13.38 to 1.00

(a) Definitions of ratios are included as part of the revolving credit facility agreement and the private placement agreements.

At September 30, 2017, the Company's long-term obligations consisted of the following:

	Principal	Unamortized Debt Issuance Costs	Net
Notes payable 0.61% – 18.00%, due in monthly and annual installments through 2025	\$ 17,103	\$ —	\$ 17,103
Senior unsecured notes 6.0%, due in 2018	75,000	62	74,938
Senior unsecured notes 3.8%, due in 2020	84,000	138	83,862

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Senior unsecured notes 3.2%, due in 2022	75,000	156	74,844
Senior unsecured debts 2.6% floating, equal annual installments through 2022	280,000	755	279,245
Senior unsecured notes 3.5%, due in 2023	125,000	291	124,709
Senior unsecured notes 1.0%, due in 2023	118,190	418	117,772
Senior unsecured notes 3.4%, due in 2024	50,000	118	49,882
Senior unsecured notes 3.5%, due in 2024	100,000	291	99,709
Senior unsecured notes 1.2%, due in 2024	236,380	835	235,545
Senior unsecured notes 3.6%, due in 2025	125,000	314	124,686
Senior unsecured notes 3.6%, due in 2026	125,000	314	124,686
Capital lease obligations	879	—	879
	\$ 1,411,552	\$ 3,692	\$ 1,407,860
Current maturities of long-term obligations	(136,392)	(62)	(136,330)
Total long-term obligations	\$ 1,275,161	\$ 3,631	\$ 1,271,530

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At December 31, 2016, the Company's long-term obligations consisted of the following:

	Principal	Unamortized Debt Issuance Costs	Net
Notes payable 0.61% – 16.00%, due in monthly and annual installments through 2025	\$ 18,246	\$ —	\$ 18,246
Senior unsecured notes 6.0%, due in 2018	75,000	37	74,963
Senior unsecured notes 3.8%, due in 2020	84,000	119	83,881
Senior unsecured notes 3.2%, due in 2022	75,000	138	74,862
Senior unsecured notes 3.5%, due in 2023	125,000	256	124,744
Senior unsecured notes 3.4%, due in 2024	50,000	104	49,896
Senior unsecured notes 3.5%, due in 2024	100,000	256	99,744
Senior unsecured notes 3.6%, due in 2025	125,000	269	124,731
Senior unsecured notes 3.6%, due in 2026	125,000	269	124,731
Capital lease obligations	1,542	—	1,542
	\$ 778,788	\$ 1,448	\$ 777,340
Current maturities of long-term obligations	(4,603)	—	(4,603)
Total long-term obligations	\$ 774,185	\$ 1,448	\$ 772,737

Aggregate long-term maturities, excluding capital lease obligations, due annually from the current balance sheet date for the next five years are \$136,105, \$60,750, \$57,909, \$141,911 and \$132,912 and \$881,086 thereafter.

## NOTE 6 — RETIREMENT AND DEFERRED COMPENSATION PLANS

Components of Net Periodic Benefit Cost:

Three Months Ended September 30,	Domestic Plans		Foreign Plans	
	2017	2016	2017	2016
Service cost	\$ 2,426	\$ 2,261	\$ 1,447	\$ 1,148
Interest cost	1,752	1,694	459	477
Expected return on plan assets	(2,470)	(2,118)	(627)	(550)

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Amortization of net loss	801	820	493	388
Amortization of prior service cost	—	—	104	89
Net periodic benefit cost	\$ 2,509	\$ 2,657	\$ 1,876	\$ 1,552

Nine Months Ended September 30,	Domestic Plans		Foreign Plans	
	2017	2016	2017	2016
Service cost	\$ 7,279	\$ 6,781	\$ 4,166	\$ 3,449
Interest cost	5,257	5,082	1,321	1,432
Expected return on plan assets	(7,409)	(6,353)	(1,781)	(1,651)
Amortization of net loss	2,403	2,462	1,400	1,165
Amortization of prior service cost	—	—	296	265
Net periodic benefit cost	\$ 7,530	\$ 7,972	\$ 5,402	\$ 4,660

EMPLOYER CONTRIBUTIONS

Although the Company has no minimum funding requirement, we contributed \$24.7 million to our domestic defined benefit plans during the nine months ended September 30, 2017. We also expect to contribute approximately \$2.5 million to our foreign defined benefit plans in 2017, and as of September 30, 2017, we have contributed approximately \$2.0 million of that amount.

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## NOTE 7— ACCUMULATED OTHER COMPREHENSIVE INCOME

## Changes in Accumulated Other Comprehensive (Loss) Income by Component:

	Foreign Currency	Defined Benefit Pension Plans	Other	Total
Balance - December 31, 2015	\$ (206,725)	\$ (55,550)	\$ (72)	\$ (262,347)
Other comprehensive income before reclassifications	44,329	—	—	44,329
Amounts reclassified from accumulated other comprehensive income	(82)	2,511	19	2,448
Net current-period other comprehensive income	44,247	2,511	19	46,777
Balance - September 30, 2016	\$ (162,478)	\$ (53,039)	\$ (53)	\$ (215,570)
Balance - December 31, 2016	\$ (259,888)	\$ (59,775)	\$ (46)	\$ (319,709)
Other comprehensive income before reclassifications	69,493	—	(9,237)	60,256
Amounts reclassified from accumulated other comprehensive income	—	2,699	5,667	8,366
Net current-period other comprehensive income	69,493	2,699	(3,570)	68,622
Balance - September 30, 2017	\$ (190,395)	\$ (57,076)	\$ (3,616)	\$ (251,087)

## Reclassifications Out of Accumulated Other Comprehensive (Loss) Income:

Details about Accumulated Other Comprehensive Income Components Three Months Ended September 30,	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line in the Statement Where Net Income is Presented
	2017	2016	
Defined Benefit Pension Plans			
Amortization of net loss	\$ 1,294	\$ 1,208	(a)
Amortization of prior service cost	104	89	(a)
	1,398	1,297	Total before tax
	(474)	(460)	Tax benefit
	\$ 924	\$ 837	Net of tax
Foreign Currency			
Foreign currency gain	\$ —	\$ (82)	Miscellaneous, net
	—	(82)	Total before tax
	—	—	Tax benefit
	\$ —	\$ (82)	Net of tax

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Other			
Changes in treasury locks	\$ 11	\$ 10	Interest Expense
Changes in cross currency swap: interest component	(678)	—	Interest Expense
Changes in cross currency swap: foreign exchange component	7,481	—	Miscellaneous, net
	6,814	10	Total before tax
	(1,161)	(4)	Tax benefit
	\$ 5,653	\$ 6	Net of tax
Total reclassifications for the period	\$ 6,577	\$ 761	

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(a) These accumulated other comprehensive income components are included in the computation of net periodic benefit costs, net of tax (see Note 6 – Retirement and Deferred Compensation Plans for additional details).

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Details about Accumulated Other Comprehensive Income Components Nine Months Ended September 30,	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line in the Statement Where Net Income is Presented
	2017	2016	
<b>Defined Benefit Pension Plans</b>			
Amortization of net loss	\$ 3,803	\$ 3,627	(b)
Amortization of prior service cost	296	265	(b)
	4,099	3,892	Total before tax
	(1,400)	(1,381)	Tax benefit
	\$ 2,699	\$ 2,511	Net of tax
<b>Foreign Currency</b>			
Foreign currency gain	\$ —	\$ (82)	Miscellaneous, net
	—	(82)	Total before tax
	—	—	Tax benefit
	\$ —	\$ (82)	Net of tax
<b>Other</b>			
Changes in treasury locks	\$ 32	\$ 30	Interest Expense
Changes in cross currency swap: interest component	(678)	—	Interest Expense
Changes in cross currency swap: foreign exchange component	7,481	—	Miscellaneous, net
	6,835	30	Total before tax
	(1,168)	(11)	Tax benefit
	\$ 5,667	\$ 19	Net of tax
<b>Total reclassifications for the period</b>	<b>\$ 8,366</b>	<b>\$ 2,448</b>	

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(b) These accumulated other comprehensive income components are included in the computation of net periodic benefit costs, net of tax (see Note 6 – Retirement and Deferred Compensation Plans for additional details).

## NOTE 8 — DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

The Company maintains a foreign exchange risk management policy designed to establish a framework to protect the value of the Company's non-functional denominated transactions from adverse changes in exchange rates. Sales of the Company's products can be denominated in a currency different from the currency in which the related costs to produce the product are denominated. Changes in exchange rates on such inter-country sales or intercompany loans can impact the Company's results of operations. The Company's policy is not to engage in speculative foreign currency hedging activities, but to minimize our net foreign currency transaction exposure, defined as firm commitments and transactions recorded and denominated in currencies other than the functional currency. The Company may use



foreign currency forward exchange contracts, options and cross currency swaps to economically hedge these risks.

For derivative instruments designated as hedges, the Company formally documents the nature and relationships between the hedging instruments and the hedged items, as well as the risk management objectives, strategies for undertaking the various hedge transactions, and the method of assessing hedge effectiveness at inception. Quarterly thereafter, the Company formally assesses whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in the fair value or cash flows of the hedged item. Additionally, in order to designate any derivative instrument as a hedge of an anticipated transaction, the significant characteristics and expected terms of any anticipated transaction must be specifically identified, and it must be probable that the anticipated transaction will occur. All derivative financial instruments used as hedges are recorded at fair value in the Consolidated Balance Sheets (See Note 9 - Fair Value).

#### CASH FLOW HEDGE

For derivative instruments that are designated and qualify as a cash flow hedge, the changes in fair values are recorded in accumulated other comprehensive loss and included in unrealized (losses) gains on cash flow hedges. The changes in the fair values of derivatives designated as cash flow hedges are reclassified from accumulated other comprehensive loss to net income when the underlying hedged item is recognized in earnings. Cash flows from the settlement of derivative contracts designated as cash flow hedges offset cash flows from the underlying hedged items and are included in operating activities in the Consolidated Statements of Cash Flows.

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As disclosed in Note 5 – Long-Term Obligations, our wholly owned UK subsidiary borrowed \$280 million in term loan borrowings under a new credit facility. In order to mitigate the currency risk of U.S. dollar debt on a Euro functional currency entity and to mitigate the risk of variability in interest rates, we entered into a EUR/USD floating-to-fixed cross currency swap on July 20, 2017 in the notional amount of \$280 million to effectively hedge the foreign exchange and interest rate exposure on the \$280 million term loan. Related to this hedge, approximately \$3.6 million of net after-tax loss is included in accumulated other comprehensive earnings at September 30, 2017. The amount expected to be recognized into earnings during the next 12 months related to the interest component of our cross currency swap based on prevailing foreign exchange and interest rates at September 30, 2017 is \$3.3 million. The amount expected to be recognized into earnings during the next 12 months related to the foreign exchange component of our cross currency swap is dependent on fluctuations in currency exchange rates. As of September 30, 2017, the fair value of the cross currency swap was a \$12.1 million liability. The swap contract expires on July 20, 2022.

## HEDGE OF NET INVESTMENTS IN FOREIGN OPERATIONS

A significant number of the Company's operations are located outside of the United States. Because of this, movements in exchange rates may have a significant impact on the translation of the financial condition and results of operations of the Company's foreign subsidiaries. A weakening U.S. dollar relative to foreign currencies has an additive translation effect on the Company's financial condition and results of operations. Conversely, a strengthening U.S. dollar has a dilutive effect. The Company in some cases maintains debt in these subsidiaries to offset the net asset exposure. The Company does not otherwise actively manage this risk using derivative financial instruments. In the event the Company plans on a full or partial liquidation of any of our foreign subsidiaries where the Company's net investment is likely to be monetized, the Company will consider hedging the currency exposure associated with such a transaction.

## OTHER

As of September 30, 2017, the Company has recorded the fair value of foreign currency forward exchange contracts of \$0.3 million in prepaid and other and \$0.4 million in accounts payable and accrued liabilities in the balance sheet. All forward exchange contracts outstanding as of September 30, 2017 had an aggregate contract amount of \$85.3 million.

## Fair Value of Derivative Instruments in the Condensed Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016

September 30, 2017	December 31, 2016
Derivatives	Derivatives
Derivatives not	Derivatives

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	Balance Sheet Location	Designated as Hedging Instruments	Designated as Hedging Instruments	Designated as Hedging Instruments	Designated as Hedging Instruments
<b>Derivative Assets</b>					
<b>Foreign Exchange Contracts</b>					
	Prepaid and other	\$ —	\$ 327	\$ —	\$ 1,612
		\$ —	\$ 327	\$ —	\$ 1,612
<b>Derivative Liabilities</b>					
<b>Foreign Exchange Contracts</b>					
	Accounts payable and accrued liabilities	\$ —	\$ 375	\$ —	\$ 2,881
<b>Cross Currency Swap Contract (1)</b>					
	Accounts payable and accrued liabilities	12,097	—	—	—
		\$ 12,097	\$ 375	\$ —	\$ 2,881

(1) This cross currency swap contract is composed of both an interest component and a foreign exchange component.

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The Effect of Cash Flow Hedge Accounting on Accumulated Other Comprehensive Income (Loss) for the Quarters Ended September 30, 2017 and September 30, 2016

Derivatives in Cash	Amount of Gain (Loss)		Location of (Loss) Gain Recognized	Amount of Gain (Loss)		Total Amount
	Recognized in Other Comprehensive Income on Derivative	2016		Reclassified from Accumulated Other Comprehensive Income on Derivative	2016	
Flow Hedging Relationships			in Income on Derivatives			of Affected Income Statement Line Item
Cross currency swap contract:						
Interest component	\$ (3,648)	\$ —	Interest expense	\$ 678	\$ —	\$ (9,733)
Foreign exchange component	(7,481)	—	Miscellaneous, net	(7,481)	—	(2,200)
	\$ (11,129)	\$ —		\$ (6,803)	\$ —	\$ (11,933)

The Effect of Cash Flow Hedge Accounting on Accumulated Other Comprehensive Income (Loss) for the Nine Months Ended September 30, 2017 and September 30, 2016

Derivatives in Cash	Amount of Gain (Loss)		Location of (Loss) Gain Recognized	Amount of Gain (Loss)		Total Amount
	Recognized in Other Comprehensive Income on Derivative	2016		Reclassified from Accumulated Other Comprehensive Income on Derivative	2016	
Flow Hedging Relationships			in Income on Derivatives			of Affected Income Statement Line Item
Cross currency swap contract:						
Interest component	\$ (3,648)	\$ —	Interest expense	\$ 678	\$ —	\$ (25,707)
Foreign exchange component	(7,481)	—	Miscellaneous, net	(7,481)	—	(509)
	\$ (11,129)	\$ —		\$ (6,803)	\$ —	\$ (26,216)

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The Effect of Derivatives Not Designated as Hedging Instruments on the Condensed Consolidated Statements of Income for the Quarters Ended September 30, 2017 and September 30, 2016

Derivatives Not Designated as Hedging Instruments	Location of (Loss) Gain Recognized in Income on Derivatives	Amount of (Loss) Gain Recognized in Income on Derivatives	
		2017	2016
	Other (Expense) Income:		
Foreign Exchange Contracts	Miscellaneous, net	\$ (15,534)	\$ 3,191
		\$ (15,534)	\$ 3,191

The Effect of Derivatives Not Designated as Hedging Instruments on the Condensed Consolidated Statements of Income for the Nine Months Ended September 30, 2017 and September 30, 2016

Derivatives Not Designated as Hedging Instruments	Location of (Loss) Gain Recognized in Income on Derivatives	Amount of (Loss) Gain Recognized in Income on Derivatives	
		2017	2016
	Other (Expense) Income:		
Foreign Exchange Contracts	Miscellaneous, net	\$ (64,651)	\$ (1,875)
		\$ (64,651)	\$ (1,875)

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Description	Gross Amount	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Gross Amounts not Offset in the Statement of Financial Position		Net Amount
				Financial Instruments	Cash Collateral Received	
September 30, 2017						
Derivative						
Assets	\$ 327	—	\$ 327	—	—	\$ 327
Total Assets	\$ 327	—	\$ 327	—	—	\$ 327
Derivative						
Liabilities	\$ 12,472	—	\$ 12,472	—	—	\$ 12,472
Total Liabilities	\$ 12,472	—	\$ 12,472	—	—	\$ 12,472
December 31, 2016						
Derivative						
Assets	\$ 1,612	—	\$ 1,612	—	—	\$ 1,612
Total Assets	\$ 1,612	—	\$ 1,612	—	—	\$ 1,612
Derivative						
Liabilities	\$ 2,881	—	\$ 2,881	—	—	\$ 2,881
Total Liabilities	\$ 2,881	—	\$ 2,881	—	—	\$ 2,881

As part of our repatriation activities, during the second quarter of 2017 we had a €700 million intercompany receivable balance on a U.S. Dollar functional subsidiary. In order to minimize the foreign currency risk, the Company executed foreign currency forward contracts to sell Euros and receive U.S. Dollars. These foreign currency forward contracts matured on July 27, 2017, which coincided with the date of the planned repatriation and resulted in the Company delivering €700 million in cash and receiving approximately \$751 million in cash. At maturity, the foreign exchange transaction loss on the forward contract amounted to \$66.2 million. This impact was offset by the revaluation of the €700 million intercompany accounts receivable balance that had \$69.5 million gain during the same period. Therefore, the forward points on these forward contracts had a \$3.3 million favorable impact on other (expense) income miscellaneous, net for the nine months ended September 30, 2017.

## NOTE 9 — FAIR VALUE

Authoritative guidelines require the categorization of assets and liabilities into three levels based upon the assumptions (inputs) used to price the assets or liabilities. Level 1 provides the most reliable measure of fair value, whereas Level 3 generally requires significant management judgment. The three levels are defined as follows:

- Level 1: Unadjusted quoted prices in active markets for identical assets and liabilities.
- Level 2: Observable inputs other than those included in Level 1. For example, quoted prices for similar assets or liabilities in active markets or quoted prices for identical assets or liabilities in inactive markets.
- Level 3: Unobservable inputs reflecting management's own assumptions about the inputs used in pricing the asset or liability.

As of September 30, 2017, the fair values of our financial assets and liabilities were categorized as follows:

	Total	Level 1	Level 2	Level 3
Assets				
Foreign exchange contracts (a)	\$ 327	\$ —	\$ 327	\$ —
Total assets at fair value	\$ 327	\$ —	\$ 327	\$ —
Liabilities				
Foreign exchange contracts (a)	\$ 375	\$ —	\$ 375	\$ —
Cross currency swap contract (a)	12,097	—	12,097	—
Total liabilities at fair value	\$ 12,472	\$ —	\$ 12,472	\$ —

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As of December 31, 2016, the fair values of our financial assets and liabilities were categorized as follows:

	Total	Level 1	Level 2	Level 3
Assets				
Foreign exchange contracts (a)	\$ 1,612	\$ —	\$ 1,612	\$ —
Total assets at fair value	\$ 1,612	\$ —	\$ 1,612	\$ —
Liabilities				
Foreign exchange contracts (a)	\$ 2,881	\$ —	\$ 2,881	\$ —
Total liabilities at fair value	\$ 2,881	\$ —	\$ 2,881	\$ —

(a) Market approach valuation technique based on observable market transactions of spot and forward rates.

The carrying amounts of the Company's other current financial instruments such as cash and equivalents, accounts and notes receivable, notes payable and current maturities of long-term obligations approximate fair value due to the short-term maturity of the instruments. The Company considers our long-term obligations a Level 2 liability and utilizes the market approach valuation technique based on interest rates that are currently available to the Company for issuance of debt with similar terms and maturities. The estimated fair value of the Company's long-term obligations was \$1.2 billion as of September 30, 2017 and \$739 million as of December 31, 2016.

## NOTE 10 - COMMITMENTS AND CONTINGENCIES

The Company, in the normal course of business, is subject to a number of lawsuits and claims both actual and potential in nature. While management believes the resolution of these claims and lawsuits will not have a material adverse effect on the Company's financial position or results of operations or cash flows, claims and legal proceedings are subject to inherent uncertainties, and unfavorable outcomes could occur and could include amounts in excess of any accruals which management has established. Were such unfavorable final outcomes to occur, it is possible that they could have a material adverse effect on our financial position, results of operations and cash flows.

Under our Certificate of Incorporation, the Company has agreed to indemnify our officers and directors for certain events or occurrences while the officer or director is, or was, serving at our request in such capacity. The maximum potential amount of future payments the Company could be required to make under these indemnification agreements is unlimited; however, the Company has a directors and officers liability insurance policy that covers a portion of our exposure. As a result of our insurance policy coverage, the Company believes the estimated fair value of these indemnification agreements is minimal. The Company has no liabilities recorded for these agreements as of September 30, 2017 and December 31, 2016.

An environmental investigation, undertaken to assess areas of possible contamination, was completed at the Company's facility in Jundiaí, São Paulo, Brazil. The facility is primarily an internal supplier of anodized aluminum components for certain of our dispensing systems. The testing indicated that soil and groundwater in certain areas of



the facility were impacted above acceptable levels established by local regulations. In March 2017, the Company reported the findings to the relevant environmental authority, the Environmental Company of the State of São Paulo – CETESB. The Company is in the preliminary stages of further assessing the affected areas to determine the full extent of the impact and the scope of any required remediation. Initial costs for further investigation and possible remediation, which are based on assumptions about the area of impact and customary remediation costs, are estimated to be in the range of \$1.5 million to \$3.0 million. The range of possible loss associated with this environmental contingency is subject to considerable uncertainty due to the incomplete status of the investigation and preliminary nature of our discussions with CETESB. We will continue to evaluate the range of likely costs as the investigation proceeds and we have further clarity on the nature and extent of remediation that will be required. We note that the contamination, or any failure to complete any required remediation in a timely manner, could potentially result in fines or penalties. We accrued \$1.5 million (operating expense) in the first quarter of 2017 relating to this contingency. The amount is periodically reviewed, and adjusted as necessary, as the matter continues to evolve. Based on the current status of the investigation, no adjustment to the accrual was necessary for the quarter ended September 30, 2017.

#### NOTE 11 — STOCK REPURCHASE PROGRAM

On October 20, 2016, the Company announced a share repurchase authorization of up to \$350 million of common stock. This authorization replaces previous authorizations and has no expiration date. Aptar may repurchase shares through the open market, privately negotiated transactions or other programs, subject to market conditions.

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During the three and nine months ended September 30, 2017, the Company repurchased approximately 546 thousand and 1.4 million shares for approximately \$45.5 million and \$113.3 million, respectively. During the three and nine months ended September 30, 2016, the Company repurchased approximately 463 thousand and 1.1 million shares for approximately \$36.1 million and \$84.8 million, respectively. As of September 30, 2017, there was \$190.2 million of authorized share repurchases available to the Company.

## NOTE 12 — STOCK-BASED COMPENSATION

The Company issues stock options and restricted stock units (“RSUs”) to employees under Stock Awards Plans approved by stockholders. RSUs are issued to non-employee directors under a Director Restricted Stock Unit Plan and the 2016 Equity Incentive Plan, and stock options were formally issued to non-employee directors under a Director Stock Option Plan. Options are awarded with the exercise price equal to the market price on the date of grant and generally become exercisable over three years and expire 10 years after grant. RSUs granted to employees generally vest over three years. Director RSUs generally vest over one year.

Compensation expense attributable to employee stock options for the first nine months of 2017 was approximately \$12.6 million (\$8.6 million after tax). The income tax benefit related to this compensation expense was approximately \$4.0 million. Approximately \$11.0 million of the compensation expense was recorded in selling, research & development and administrative expenses and the balance was recorded in cost of sales. Compensation expense attributable to stock options for the first nine months of 2016 was approximately \$15.5 million (\$10.4 million after tax). The income tax benefit related to this compensation expense was approximately \$5.1 million. Approximately \$13.7 million of the compensation expense was recorded in selling, research & development and administrative expenses and the balance was recorded in cost of sales.

The Company uses historical data to estimate expected life and volatility. The weighted-average fair value of stock options granted under the Stock Awards Plans was \$11.86 and \$10.59 per share during the first nine months of 2017 and 2016, respectively. These values were estimated on the respective grant dates using the Black-Scholes option-pricing model with the following weighted-average assumptions:

Stock Awards Plans: Nine Months Ended September 30,	2017	2016
Dividend Yield	1.7 %	1.8 %
Expected Stock Price Volatility	15.8 %	16.9 %
Risk-free Interest Rate	2.2 %	1.6 %
Expected Life of Option (years)	6.7	6.7

A summary of option activity under the Company’s stock plans during the nine months ended September 30, 2017 is presented below:

	Stock Awards Plans		Director Stock Option Plans	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, January 1, 2017	8,070,444	\$ 56.36	281,334	\$ 56.45
Granted	1,622,082	74.90	—	—
Exercised	(1,345,252)	46.67	(66,367)	53.23
Forfeited or expired	(122,282)	71.42	—	—
Outstanding at September 30, 2017	8,224,992	\$ 61.38	214,967	\$ 57.44
Exercisable at September 30, 2017	5,310,730	\$ 55.44	214,967	\$ 57.44
Weighted-Average Remaining Contractual Term (Years):				
Outstanding at September 30, 2017	6.3		5.3	
Exercisable at September 30, 2017	5.0		5.3	
Aggregate Intrinsic Value:				
Outstanding at September 30, 2017	\$ 206,938		\$ 6,255	
Exercisable at September 30, 2017	\$ 165,175		\$ 6,255	
Intrinsic Value of Options Exercised During the Nine Months Ended:				
September 30, 2017	\$ 44,734		\$ 1,995	
September 30, 2016	\$ 38,514		\$ 536	

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The fair value of options vested during the nine months ended September 30, 2017 and 2016 was \$16.9 million and \$17.2 million, respectively. Cash received from option exercises was approximately \$66.7 million and the actual tax benefit realized for the tax deduction from option exercises was approximately \$13.7 million in the nine months ended September 30, 2017. As of September 30, 2017, the remaining valuation of stock option awards to be expensed in future periods was \$16.4 million and the related weighted-average period over which it is expected to be recognized is 2.0 years.

The fair value of RSU grants is the market price of the underlying shares on the grant date. A summary of RSU activity as of September 30, 2017, and changes during the nine month period then ended, is presented below:

	Stock Awards Plans		Director Restricted Stock Unit Plan	
	RSUs	Weighted Average Grant-Date Fair Value	RSUs	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2017	72,127	\$ 69.31	15,745	\$ 75.56
Granted	89,110	74.43	14,793	80.45
Vested	(51,963)	68.52	(15,745)	75.56
Nonvested at September 30, 2017	109,274	\$ 73.86	14,793	\$ 80.45

Compensation expense recorded attributable to RSUs for the first nine months of 2017 and 2016 was approximately \$2.4 million and \$2.3 million, respectively. The actual tax benefit realized for the tax deduction from RSUs was approximately \$1.6 million in the nine months ended September 30, 2017. The fair value of units vested during the nine months ended September 30, 2017 and 2016 was \$4.7 million and \$1.9 million, respectively. The intrinsic value of units vested during the nine months ended September 30, 2017 and 2016 was \$5.2 million and \$2.3 million, respectively. As of September 30, 2017, there was \$6.2 million of total unrecognized compensation cost relating to RSU awards which is expected to be recognized over a weighted-average period of 2.1 years.

The Company has a long-term incentive program for certain employees. Each award is based on the cumulative total shareholder return of our common stock during a three year performance period compared to a peer group. The total expected expense related to this program for awards outstanding as of September 30, 2017 is approximately \$4.0 million, of which \$1.5 million and \$973 thousand was recognized in the first nine months of 2017 and 2016, respectively.

## NOTE 13 — EARNINGS PER SHARE

Aptar's authorized common stock consists of 199 million shares, having a par value of \$0.01 each. Information related to the calculation of earnings per share is as follows:

	Three Months Ended		September 30, 2016	
	September 30, 2017 Diluted	Basic	Diluted	Basic
Consolidated operations				
Income available to common stockholders	\$ 53,523	\$ 53,523	\$ 53,098	\$ 53,098
Average equivalent shares				
Shares of common stock	62,592	62,592	62,858	62,858
Effect of dilutive stock based compensation				
Stock options	2,171	—	1,791	—
Restricted stock	58	—	41	—
Total average equivalent shares	64,821	62,592	64,690	62,858
Net income per share	\$ 0.83	\$ 0.86	\$ 0.82	\$ 0.84

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	Nine Months Ended		September 30, 2016	
	September 30, 2017		Diluted	Basic
	Diluted	Basic	Diluted	Basic
Consolidated operations				
Income available to common stockholders	\$ 170,517	\$ 170,517	\$ 156,009	\$ 156,009
Average equivalent shares				
Shares of common stock	62,527	62,527	62,878	62,878
Effect of dilutive stock based compensation				
Stock options	2,046	—	2,059	—
Restricted stock	53	—	52	—
Total average equivalent shares	64,626	62,527	64,989	62,878
Net income per share	\$ 2.64	\$ 2.73	\$ 2.40	\$ 2.48

## NOTE 14 — SEGMENT INFORMATION

The Company is organized into three reporting segments. Operations that sell dispensing systems and sealing solutions primarily to the personal care, beauty and home care markets form the Beauty + Home segment. Operations that sell dispensing systems and sealing solutions primarily to the prescription drug, consumer health care and injectables markets form the Pharma segment. Operations that sell dispensing systems and sealing solutions primarily to the food and beverage markets form the Food + Beverage segment. The accounting policies of the segments are the same as those described in Note 1, Summary of Significant Accounting Policies, in the Company's Annual Report on Form 10-K for the year ended December 31, 2016.

Financial information regarding the Company's reportable segments is shown below:

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2017	2016	2017	2016
Total Sales:				
Beauty + Home	\$ 338,068	\$ 319,244	\$ 992,476	\$ 984,008
Pharma	199,551	191,190	598,168	565,363
Food + Beverage	91,852	82,952	269,159	257,435
Total Sales	629,471	593,386	1,859,803	1,806,806
Less: Intersegment Sales:				
Beauty + Home	\$ 4,320	\$ 3,214	\$ 14,163	\$ 13,321

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Pharma	4	(4)	7	—
Food + Beverage	821	447	2,245	1,419
Total Intersegment Sales	\$ 5,145	\$ 3,657	\$ 16,415	\$ 14,740
Net Sales:				
Beauty + Home	\$ 333,748	\$ 316,030	\$ 978,313	\$ 970,687
Pharma	199,547	191,194	598,161	565,363
Food + Beverage	91,031	82,505	266,914	256,016
Net Sales	\$ 624,326	\$ 589,729	\$ 1,843,388	\$ 1,792,066
Segment Income (1):				
Beauty + Home	\$ 21,837	\$ 25,380	\$ 69,248	\$ 79,455
Pharma	55,426	55,037	174,288	166,870
Food + Beverage	11,668	10,101	31,385	32,977
Corporate & Other	(10,793)	(7,479)	(32,734)	(35,310)
Interest Expense	(9,733)	(8,753)	(25,707)	(26,547)
Interest Income	1,113	715	2,086	1,759
Income before Income Taxes	\$ 69,518	\$ 75,001	\$ 218,566	\$ 219,204

- (1) The Company evaluates performance of our business units and allocates resources based upon segment income. Segment income is defined as earnings before net interest expense, certain corporate expenses and income taxes.

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## Note 15 – INSURANCE SETTLEMENT RECEIVABLE

A fire caused damage to Aptar's facility in Annecy, France in June 2016. The fire was contained to one of three production units and there were no reported injuries. Aptar Annecy supplies anodized aluminum components for certain Aptar dispensing systems. While repairs are underway, Aptar will source from its network of suppliers as well as from its anodizing facility in Brazil. The Company is insured for the damages caused by the fire, including business interruption insurance, and it does not expect this incident to have a material impact on its financial results. Losses related to the fire of \$4.5 million and \$14.4 million were incurred during the three and nine months ended September 30, 2017, respectively. During the three and nine months ended September 30, 2016, losses related to the fire of \$4.9 million and \$5.5 million were incurred, respectively. For the nine months ended September 30, 2017, we have received insurance proceeds of \$12.0 million. As our cash receipts are in excess of costs incurred, we currently have a prepayment of \$1.0 million at September 30, 2017, which is included in Accounts Payable and Accrued Liabilities in the Condensed Consolidated Balance Sheet. In many cases, our insurance coverage exceeds the amount of these recognized losses. No gain contingencies have been recognized as our ability to realize those gains remains uncertain. Profitability was negatively impacted by \$1.4 million and \$4.1 million related to the Annecy fire during the three and nine months ended September 30, 2017, respectively. During the three and nine months ended September 30, 2016, profitability was negatively impacted by \$1.4 million. These costs are included in the Beauty + Home segment.

## NOTE 16 – ACQUISITIONS

On February 29, 2016, the Company completed its acquisition of MegaPlast GmbH and its subsidiaries along with Megaplast France S.a.r.l. and Mega Pumps L.P. (Mega Airless). Mega Airless is a leading provider of innovative all-plastic airless dispensing systems for the beauty, personal care and pharmaceutical markets and operates two manufacturing facilities in Germany and one in the United States. The purchase price paid for Mega Airless was approximately \$223.2 million (\$203.0 million net of cash received) and was funded by cash on hand and borrowings on our revolving line of credit.

The following table summarizes the assets acquired and liabilities assumed as of the acquisition date at estimated fair value.

	February 29, 2016
Assets	
Cash and equivalents	\$ 20,197
Accounts receivable	8,275
Inventories	8,373
Prepaid and other	378
Property, plant and equipment	47,768
Goodwill	105,561
Intangible assets	72,106



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Other miscellaneous assets	8
Liabilities	
Current maturities of long-term obligations	319
Accounts payable and accrued liabilities	7,398
Long-term obligations	13,402
Deferred income taxes	18,366
Net assets acquired	\$ 223,181

The following table is a summary of the fair value estimates of the acquired identifiable intangible assets and weighted-average useful lives as of the acquisition date:

	Weighted-Average Useful Life (in years)	Estimated Fair Value of Asset
Customer relationships	11	\$ 57,120
Technology	15	