APTARGROUP INC
Form 10-Q
May 03, 2016
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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 MARCH 31, 2016

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-11846

AptarGroup, Inc.

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, or a smaller reporting company. See the definitions of "large accelerated filer", "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

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

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

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 April 27, 2016
Common Stock, $.01 par value per share	63,155,792 shares

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Form 10-Q

Quarter Ended March 31, 2016

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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 March 31,	2016	2015
Net Sales	$ 582,338	$ 589,811
Operating Expenses:		
Cost of sales (exclusive of depreciation and amortization shown below)	374,203	385,979
Selling, research & development and administrative	103,015	96,187
Depreciation and amortization	35,887	34,060
	513,105	516,226
Operating Income	69,233	73,585
Other (Expense) Income:		
Interest expense	(8,591)	(7,303)
Interest income	584	1,731
Equity in results of affiliates	(121)	(119)
Miscellaneous, net	(1,260)	(199)
	(9,388)	(5,890)
Income before Income Taxes	59,845	67,695
Provision for Income Taxes	15,979	22,596
Net Income	$ 43,866	$ 45,099
Net (Income) Loss Attributable to Noncontrolling Interests	$ (3)	$ 72
Net Income Attributable to AptarGroup, Inc.	$ 43,863	$ 45,171
Net Income Attributable to AptarGroup, Inc. per Common Share:		

Basic	$ 0.70	$ 0.73
Diluted	$ 0.67	$ 0.70
Average Number of Shares Outstanding:		
Basic	62,722	62,292
Diluted	65,063	64,494
Dividends per Common Share	$ 0.30	$ 0.28

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 March 31,	2016	2015
Net Income	$ 43,866	$ 45,099
Other Comprehensive Income (Loss):		
Foreign currency translation adjustments	65,172	(139,246)
Changes in treasury locks, net of tax	7	6
Defined benefit pension plan, net of tax		
Amortization of prior service cost included in net income, net of tax	57	43
Amortization of net loss included in net income, net of tax	776	1,126
Total defined benefit pension plan, net of tax	833	1,169
Total other comprehensive income (loss)	66,012	(138,071)
Comprehensive Income (Loss)	109,878	(92,972)
Comprehensive (Income) Loss Attributable to Noncontrolling Interests	(4)	72
Comprehensive Income (Loss) Attributable to AptarGroup, Inc.	$ 109,874	$ (92,900)

See accompanying Unaudited Notes to Condensed Consolidated Financial Statements.

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AptarGroup, Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

In thousands

	March 31, 2016	December 31, 2015
Assets		
Current Assets:		
Cash and equivalents	$ 385,972	$ 489,901
Short-term investments	—	29,816
	385,972	519,717
Accounts and notes receivable, less allowance for doubtful accounts of $2,972 in 2016 and $2,710 in 2015	483,850	391,571
Inventories	315,199	294,912
Prepaid and other	86,074	88,794
	1,271,095	1,294,994
Property, Plant and Equipment:		
Buildings and improvements	387,544	343,698
Machinery and equipment	1,957,009	1,866,627
	2,344,553	2,210,325
Less: Accumulated depreciation	(1,536,600)	(1,465,873)
	807,953	744,452
Land	24,603	20,931
	832,556	765,383
Other Assets:		
Investments in affiliates	4,595	4,590
Goodwill	432,597	310,240
Intangible assets	104,188	31,529
Miscellaneous	34,002	30,309
	575,382	376,668
Total Assets	$ 2,679,033	$ 2,437,045

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

	March 31, 2016	December 31, 2015
Liabilities and Stockholders' Equity		
Current Liabilities:		
Notes payable	$ 80,689	$ 5,083
Current maturities of long-term obligations, net of unamortized debt issuance costs	53,309	51,884
Accounts payable and accrued liabilities	388,768	354,928
	522,766	411,895
Long-Term Obligations	773,182	760,848
Deferred Liabilities and Other:		
Deferred income taxes	26,651	20,486
Retirement and deferred compensation plans	82,135	87,763
Deferred and other non-current liabilities	6,645	6,347
Commitments and contingencies	—	—
	115,431	114,596
Stockholders' Equity:		
AptarGroup, Inc. stockholders' equity		
Common stock, \$.01 par value, 199 million shares authorized, 66.9 and 66.7 million shares issued as of March 31, 2016 and December 31, 2015, respectively	669	667
Capital in excess of par value	519,627	495,462
Retained earnings	1,202,914	1,185,681
Accumulated other comprehensive (loss)	(196,336)	(262,347)
Less: Treasury stock at cost, 4.0 and 4.2 million shares as of March 31, 2016 and December 31, 2015, respectively	(259,519)	(270,052)
Total AptarGroup, Inc. Stockholders' Equity	1,267,355	1,149,411
Noncontrolling interests in subsidiaries	299	295
Total Stockholders' Equity	1,267,654	1,149,706
Total Liabilities and Stockholders' Equity	$ 2,679,033	$ 2,437,045

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 (Loss) Income	Common Stock Par Value	Treasury Stock	Capital in Excess of Par Value	Non-Controlling Interest	Total Equity
Balance - December 31, 2014:	$ 1,740,005	$ (110,045)	$ 862	$ (1,026,117)	$ 498,702	$ 509	$ 1,103,916
Net income	45,171					(72)	45,099
Foreign currency translation adjustments		(139,246)					(139,246)
Changes in unrecognized pension gains/losses and related amortization, net of tax		1,169					1,169
Changes in treasury locks, net of tax		6					6
Stock option exercises & restricted stock vestings			5	1,079	32,172		33,256
Cash dividends declared on common stock	(17,402)						(17,402)
Balance - March 31, 2015:	$ 1,767,774	$ (248,116)	$ 867	$ (1,025,038)	$ 530,874	$ 437	$ 1,026,798
	$ 1,185,681	$ (262,347)	$ 667	$ (270,052)	$ 495,462	$ 295	$ 1,149,706

Balance - December 31, 2015:							
Net income	43,863					3	43,866
Foreign currency translation adjustments		65,171				1	65,172
Changes in unrecognized pension gains/losses and related amortization, net of tax		833					833
Changes in treasury locks, net of tax		7					7
Stock option exercises & restricted stock vestings			3	10,533	24,945		35,481
Cash dividends declared on common stock	(18,770)						(18,770)
Common stock repurchased and retired	(7,860)		(1)		(780)		(8,641)
Balance - March 31, 2016:	$ 1,202,914	$ (196,336)	$ 669	$ (259,519)	$ 519,627	$ 299	$ 1,267,654

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

Three Months Ended March 31,	2016	2015
Cash Flows from Operating Activities:		
Net income	$ 43,866	$ 45,099
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	34,401	32,979
Amortization	1,486	1,081
Stock based compensation	10,104	9,530
Provision for (recovery of) doubtful accounts	13	(156)
Deferred income taxes	(867)	(1,001)
Defined benefit plan expense	4,194	5,161
Equity in results of affiliates	121	119
Changes in balance sheet items, excluding effects from foreign currency adjustments:		
Accounts receivables	(70,863)	(44,798)
Inventories	(1,792)	1,040
Prepaid and other current assets	(14,646)	(12,975)
Accounts payable and accrued liabilities	11,362	12,691
Income taxes payable	(737)	(2,879)
Retirement and deferred compensation plan liabilities	(15,151)	(4,567)
Other changes, net	10,386	(1,558)
Net Cash Provided by Operations	11,877	39,766
Cash Flows from Investing Activities:		
Capital expenditures	(24,218)	(26,885)
Proceeds from sale of property and equipment, including insurance proceeds	1,234	1,840
Maturity of short-term investments	29,485	—
Acquisition of business, net of cash acquired	(202,985)	—
Acquisition of intangible assets	(2,514)	—
Notes receivable, net	319	151
Net Cash Used by Investing Activities	(198,679)	(24,894)
Cash Flows from Financing Activities:		
Proceeds from (repayments of) notes payable	75,180	(229,294)
Proceeds from long-term obligations	101	225,000
Repayments of long-term obligations	(1,047)	(755)
Dividends paid	(18,770)	(17,402)
Credit facility costs	—	(399)
Proceeds from stock option exercises	20,960	19,671
Common stock repurchased and retired	(8,641)	—

Excess tax benefit from exercise of stock options	3,764	3,421
Net cash Provided by Financing Activities	71,547	242
Effect of Exchange Rate Changes on Cash	11,326	(29,183)
Net Decrease in Cash and Equivalents	(103,929)	(14,069)
Cash and Equivalents at Beginning of Period	489,901	399,762
Cash and Equivalents at End of Period	$ 385,972	$ 385,693

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” or “Company” as used herein refer to AptarGroup, Inc. and our subsidiaries. All significant intercompany accounts and transactions have been eliminated. Certain previously reported amounts have been reclassified to conform to the current period presentation.

In the opinion of management, the Unaudited Condensed Consolidated Financial Statements include all adjustments, consisting of only 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 (“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, 2015 but does not include all disclosures required by 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, 2015. The results of operations of any interim period are not necessarily indicative of the results that may be expected for the year.

CHANGE IN ACCOUNTING PRINCIPLE

During the second quarter of 2015, the Company changed its inventory valuation method for certain operating entities in its North American business to the first-in first-out (FIFO) method from the last-in first-out (LIFO) method. Prior to the change, the Company utilized two methods of inventory costing: LIFO for inventories in these operating entities and FIFO for inventories in other operating entities. The Company believes that the FIFO method is preferable as it better reflects the current value of inventory on the Company’s Condensed Consolidated Balance Sheet, provides better matching of revenues and expenses, results in uniformity across the Company’s global operations with respect to the method of inventory accounting and improves comparability with the Company’s peers. The change to the FIFO method was not applied retrospectively because the impact to previously issued financial statements or to the trend of reported results of operations was immaterial. The first quarter 2015 results included a $342 thousand gain on LIFO adjustment and the first quarter 2015 Condensed Consolidated Balance Sheet included a LIFO reserve of $7.4 million.

ADOPTION OF RECENT ACCOUNTING PRONOUNCEMENTS

Changes to GAAP are established by the Financial Accounting Standards Board (“FASB”) in the form of accounting standards updates 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. We are currently evaluating the impact the adoption of this standard will have on our Consolidated Financial Statements.

In April 2015, the FASB issued an Accounting Standards Update (“ASU”) intended to simplify GAAP by changing the presentation of debt issuance costs. Under the new standard, debt issuance costs will be presented as a reduction of the carrying amount of the related liability, rather than as an asset. The new treatment is consistent with debt discounts. In August 2015, the FASB issued an ASU clarifying that debt issuance costs related to line of credit arrangements can be classified as an asset and amortized ratably over the term of the line of credit arrangement. These standards are effective for annual reporting periods beginning after December 15, 2015. The Company has implemented these standards within the current financial statements and retrospectively applied the changes to the prior periods as required, which resulted in a $1.7 million reclassification from Intangible Assets to Current Maturities of Long-Term Obligations and Long-Term Obligations in the December 31, 2015 Consolidated Balance Sheet.

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In April 2015, the FASB issued new guidance on a customer's accounting for fees paid in a cloud computing arrangement (“CCA”). Previously, there was no specific GAAP guidance on accounting for such fees from the customer's perspective. Under the new standard, customers will apply the same criteria as vendors to determine whether a CCA contains a software license or is solely a service contract. This standard is effective for annual reporting periods beginning after December 15, 2015. The Company has adopted the requirements of the standard with respect to its current CCAs and has determined that the impact is not material to our current year financial statements.

In May 2015, the FASB issued new guidance on investment disclosures. Investments measured at net asset value (“NAV”), as a practical expedient for fair value, are excluded from the fair value hierarchy. Removing investments measured using the practical expedient from the fair value hierarchy is intended to eliminate the diversity in practice that currently exists with respect to the categorization of these investments. The Company has adopted the standard and determined that there was no impact to the current period financial statements and that the presentation of pension plan investment fair value hierarchy tables in the annual financial statements will be updated accordingly.

In November 2015, the FASB issued guidance which simplifies the balance sheet classification of deferred taxes. The new guidance requires that deferred tax liabilities and assets be presented as non-current in a classified statement of financial position. This standard is effective for annual reporting periods beginning after December 15, 2016. The Company has prospectively adopted the requirements of the standard and updated the presentation of our classified statement of financial position accordingly.

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 quarter of 2016, the Company repurchased and immediately retired 113 thousand shares of common stock. Common stock was reduced by the number of shares retired at $0.01 par value per share. The excess of purchase price over par value may be charged entirely to retained earnings or may be allocated between additional paid-in capital and retained earnings. The Company has elected to allocate 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.

In making the determination of which foreign earnings are permanently reinvested in foreign operations, the Company considers numerous factors, including 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 shareholder capital both within the U.S. and for non-U.S. operations. The Company's policy is to permanently reinvest our accumulated foreign earnings and the Company will only make a distribution out of current year earnings to meet the cash needs at the parent company. As such, the Company does not provide for taxes on earnings that are deemed to be permanently reinvested.

The Company provides a liability for the amount of tax benefits realized 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 of the Unaudited Notes to the Condensed Consolidated Financial Statements for more information.

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REVISION OF PRIOR PERIOD FINANCIAL STATEMENTS

During the third quarter of 2015, the Company determined that it had incorrectly accounted for the reissuance of treasury shares in connection with certain employee stock option exercises. The Company's policy is to reissue treasury shares at cost on a first-in, first-out (FIFO) basis. However, beginning in 2007 shares were reissued at a cost other than FIFO. The effect of correcting this error results in a credit adjustment to the treasury stock at cost with a corresponding debit adjustment to the capital in excess of par value. As this adjustment represents a reclassification between two accounts within Stockholders' Equity, the Condensed Consolidated Balance Sheets and the Condensed Consolidated Statements of Changes in Equity are impacted by this change. The revisions, which the Company determined are not material, had no impact on consolidated results of operations or cash flows. 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 Condensed Consolidated Statements of Changes in Equity			
Balance – December 31, 2014			
Capital in excess of par value	$ 507,313	$ (8,611)	$ 498,702
Treasury Stock	(1,034,728)	8,611	(1,026,117)
Total Equity	1,103,916	—	1,103,916
Stock option exercises & restricted stock vestings			
Capital in excess of par value	$ 33,250	$ (1,078)	$ 32,172
Treasury Stock	1	1,078	1,079
Total Equity	33,256	—	33,256
Balance – March 31, 2015			
Capital in excess of par value	$ 540,563	$ (9,689)	$ 530,874
Treasury Stock	(1,034,727)	9,689	(1,025,038)
Total Equity	1,026,798	—	1,026,798

NOTE 2 - INVENTORIES

Inventories, by component, consisted of:

	March 31, 2016	December 31, 2015
Raw materials	$ 91,292	$ 91,214
Work in process	107,497	90,625
Finished goods	116,410	113,073
Total	$ 315,199	$ 294,912

NOTE 3 – GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill since December 31, 2015 are as follows by reporting segment:

Beauty +