

APTARGROUP INC  
Form 10-Q  
August 05, 2013  
Table of Contents

UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549-1004

## FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2013

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  
(State of Incorporation)

36-3853103  
(I.R.S. Employer Identification No.)

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

Edgar Filing: APTARGROUP INC - Form 10-Q

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.

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 July 30, 2013
Common Stock, \$.01 par value per share	66,283,277 shares

---

Table of Contents

AptarGroup, Inc.

**Form 10-Q**

Quarter Ended June 30, 2013

INDEX

<u>Part I.</u>	<u>FINANCIAL INFORMATION</u>	
<u>Item 1.</u>	<u>Financial Statements (Unaudited)</u>	
	<u>Condensed Consolidated Statements of Income - Three and Six Months Ended June 30, 2013 and 2012</u>	1
	<u>Condensed Consolidated Statements of Comprehensive Income/ (Loss) - Three and Six Months Ended June 30, 2013 and 2012</u>	2
	<u>Condensed Consolidated Balance Sheets - June 30, 2013 and December 31, 2012</u>	3
	<u>Condensed Consolidated Statements of Changes in Equity - Six Months Ended June 30, 2013 and 2012</u>	5
	<u>Condensed Consolidated Statements of Cash Flows - Six Months Ended June 30, 2013 and 2012</u>	6
	<u>Notes to Condensed Consolidated Financial Statements</u>	7
<u>Item 2.</u>	<u>Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	18
<u>Item 3.</u>	<u>Quantitative and Qualitative Disclosures about Market Risk</u>	25
<u>Item 4.</u>	<u>Controls and Procedures</u>	25
<u>Part II.</u>	<u>OTHER INFORMATION</u>	
<u>Item 2.</u>	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	26
<u>Item 6.</u>	<u>Exhibits</u>	26
	<u>Signature</u>	27



Table of Contents

## 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 June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Net Sales</b>	\$ 641,441	\$ 577,503	\$ 1,259,074	\$ 1,170,001
<b>Operating Expenses:</b>				
Cost of sales (exclusive of depreciation and amortization shown below)	431,351	390,225	849,837	791,295
Selling, research & development and administrative	88,111	87,840	182,418	176,339
Depreciation and amortization	38,614	32,597	74,785	65,151
Restructuring initiatives	2,511	(215)	6,578	(215)
	560,587	510,447	1,113,618	1,032,570
<b>Operating Income</b>	<b>80,854</b>	<b>67,056</b>	<b>145,456</b>	<b>137,431</b>
<b>Other Income (Expense):</b>				
Interest expense	(5,442)	(3,904)	(10,523)	(9,146)
Interest income	846	794	1,695	1,822
Equity in results of affiliates	(61)	(158)	(323)	(289)
Miscellaneous, net	73	(1,247)	(633)	(1,000)
	(4,584)	(4,515)	(9,784)	(8,613)
<b>Income before Income Taxes</b>	<b>76,270</b>	<b>62,541</b>	<b>135,672</b>	<b>128,818</b>
<b>Provision for Income Taxes</b>	<b>26,390</b>	<b>20,889</b>	<b>45,814</b>	<b>43,353</b>
<b>Net Income</b>	<b>\$ 49,880</b>	<b>\$ 41,652</b>	<b>\$ 89,858</b>	<b>\$ 85,465</b>
<b>Net (Gain) Loss Attributable to Noncontrolling Interests</b>	<b>\$ (78)</b>	<b>\$ 34</b>	<b>\$ (27)</b>	<b>\$ 30</b>
<b>Net Income Attributable to AptarGroup, Inc.</b>	<b>\$ 49,802</b>	<b>\$ 41,686</b>	<b>\$ 89,831</b>	<b>\$ 85,495</b>
<b>Net Income Attributable to AptarGroup, Inc. per Common Share:</b>				
Basic	\$ 0.75	\$ 0.63	\$ 1.36	\$ 1.29
Diluted	\$ 0.73	\$ 0.61	\$ 1.31	\$ 1.24
<b>Average Number of Shares Outstanding:</b>				
Basic	66,420	66,580	66,288	66,388

Edgar Filing: APTARGROUP INC - Form 10-Q

Diluted	68,106	68,758	68,339	68,940
Dividends per Common Share	\$ 0.25	\$ 0.22	\$ 0.50	\$ 0.44

See accompanying unaudited notes to condensed consolidated financial statements.

Table of Contents**AptarGroup, Inc.**

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME/ (LOSS)

(Unaudited)

In thousands, except per share amounts

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Net Income</b>	\$ 49,880	\$ 41,652	\$ 89,858	\$ 85,465
<b>Other Comprehensive Income/ (Loss):</b>				
Foreign currency translation adjustments	6,551	(70,504)	(29,062)	(28,822)
Changes in treasury locks, net of tax	15	165	30	180
Net (loss) on derivatives, net of tax	--	--	--	(7)
Defined benefit pension plan, net of tax				
Amortization of prior service cost included in net income, net of tax	61	60	122	121
Amortization of net loss included in net income, net of tax	954	684	2,072	1,371
Total defined benefit pension plan, net of tax	1,015	744	2,194	1,492
Total other comprehensive income/ (loss)	7,581	(69,595)	(26,838)	(27,157)
<b>Comprehensive (Loss)/Income</b>	<b>57,461</b>	<b>(27,943)</b>	<b>63,020</b>	<b>58,308</b>
<b>Comprehensive (Income)/ Loss Attributable to Noncontrolling Interests</b>	<b>(82)</b>	<b>38</b>	<b>(32)</b>	<b>35</b>
<b>Comprehensive Income/ (Loss) Attributable to AptarGroup, Inc.</b>	<b>\$ 57,379</b>	<b>\$ (27,905)</b>	<b>\$ 62,988</b>	<b>\$ 58,343</b>

See accompanying unaudited notes to condensed consolidated financial statements.

Table of Contents**AptarGroup, Inc.**

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

In thousands, except per share amounts

	June 30, 2013	December 31, 2012
<b>Assets</b>		
<b>Current Assets:</b>		
Cash and equivalents	\$ 189,990	\$ 229,755
Accounts and notes receivable, less allowance for doubtful accounts of \$4,623 in 2013 and \$6,751 in 2012	455,935	396,788
Inventories	337,625	321,885
Prepaid and other	101,070	90,505
	<b>1,084,620</b>	<b>1,038,933</b>
<b>Property, Plant and Equipment:</b>		
Buildings and improvements	366,618	364,704
Machinery and equipment	1,873,898	1,857,347
	<b>2,240,516</b>	<b>2,222,051</b>
Less: Accumulated depreciation	(1,427,059)	(1,397,575)
	<b>813,457</b>	<b>824,476</b>
Land	23,251	23,757
	<b>836,708</b>	<b>848,233</b>
<b>Other Assets:</b>		
Investments in affiliates	3,361	3,693
Goodwill	346,730	351,552
Intangible assets, net	49,244	51,960
Miscellaneous	18,718	30,041
	<b>418,053</b>	<b>437,246</b>
<b>Total Assets</b>	<b>\$ 2,339,381</b>	<b>\$ 2,324,412</b>

See accompanying unaudited notes to condensed consolidated financial statements.



Table of Contents**AptarGroup, Inc.**

## CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

In thousands, except per share amounts

	June 30, 2013	December 31, 2012
<b>Liabilities and Stockholders Equity</b>		
<b>Current Liabilities:</b>		
Notes payable	\$ 7,928	\$ 45,166
Current maturities of long-term obligations	27,349	29,488
Accounts payable and accrued liabilities	404,001	380,669
	<b>439,278</b>	<b>455,323</b>
<b>Long-Term Obligations</b>	<b>352,636</b>	<b>352,860</b>
<b>Deferred Liabilities and Other:</b>		
Deferred income taxes	29,097	33,451
Retirement and deferred compensation plans	100,926	95,872
Deferred and other non-current liabilities	6,782	6,408
Commitments and contingencies	--	--
	<b>136,805</b>	<b>135,731</b>
<b>Stockholders Equity:</b>		
AptarGroup, Inc. stockholders equity		
Preferred stock, \$.01 par value, 1 million shares authorized, none outstanding	--	--
Common stock, \$.01 par value, 199 million shares authorized; 85.0 and 84.1 million shares issued as of June 30, 2013 and December 31, 2012, respectively	850	840
Capital in excess of par value	475,034	430,210
Retained earnings	1,570,286	1,513,558
Accumulated other comprehensive income	33,840	60,683
Less treasury stock at cost, 18.8 and 18.2 million shares as of June 30, 2013 and December 31, 2012, respectively	(669,988)	(625,401)
Total AptarGroup, Inc. Stockholders Equity	<b>1,410,022</b>	<b>1,379,890</b>
Noncontrolling interests in subsidiaries	640	608
<b>Total Stockholders Equity</b>	<b>1,410,662</b>	<b>1,380,498</b>
<b>Total Liabilities and Stockholders Equity</b>	<b>\$ 2,339,381</b>	<b>\$ 2,324,412</b>

See accompanying unaudited notes to condensed consolidated financial statements.

Table of Contents**AptarGroup, Inc.**

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

In thousands, except per share amounts

		AptarGroup, Inc. Stockholders Equity						
		Retained	AptarGroup, Inc. Accumulated Other Comprehensive	Common	Treasury	Capital in	Non-	Total
		Earnings	Income/(Loss)	Stock	Stock	Excess of	Controlling	Equity
				Par Value		Par Value	Interest	
<b>Balance</b>	<b>December 31, 2011:</b>	\$ 1,409,388	\$ 60,318	\$ 827	\$ (545,612)	\$ 364,855	\$ 796	\$ 1,290,572
	Net income (loss)	85,495					(30)	85,465
	Foreign currency translation adjustments		(28,817)				(5)	(28,822)
	Changes in unrecognized pension gains/losses and related amortization, net of tax		1,492					1,492
	Changes in treasury locks, net of tax		180					180
	Net loss on derivatives, net of tax		(7)					(7)
	Stock option exercises & restricted stock vestings			18	3	38,280		38,301
	Cash dividends declared on common stock	(29,175)						(29,175)
	Treasury stock purchased				(10,096)			(10,096)
<b>Balance</b>	<b>June 30, 2012:</b>	\$ 1,465,708	\$ 33,166	\$ 845	\$ (555,705)	\$ 403,135	\$ 761	\$ 1,347,910
<b>Balance</b>	<b>December 31, 2012:</b>	\$ 1,513,558	\$ 60,683	\$ 840	\$ (625,401)	\$ 430,210	\$ 608	\$ 1,380,498
	Net income	89,831					27	89,858
	Foreign currency translation adjustments		(29,067)				5	(29,062)
	Changes in unrecognized pension gains/losses and related amortization, net of tax		2,194					2,194
	Changes in treasury locks, net of tax		30					30
	Net loss on derivatives, net of tax		--					--
	Stock option exercises & restricted stock vestings			10	1	44,824		44,835
	Cash dividends declared on common stock	(33,103)						(33,103)
	Treasury stock purchased				(44,588)			(44,588)
<b>Balance</b>	<b>June 30, 2013:</b>	\$ 1,570,286	\$ 33,840	\$ 850	\$ (669,988)	\$ 475,034	\$ 640	\$ 1,410,662

See accompanying unaudited notes to condensed consolidated financial statements.



Table of Contents**AptarGroup, Inc.**

## CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

In thousands, brackets denote cash outflows

Six Months Ended June 30,	2013	2012
<b>Cash Flows from Operating Activities:</b>		
Net income	\$ 89,858	\$ 85,465
<b>Adjustments to reconcile net income to net cash provided by operations:</b>		
Depreciation	72,303	64,485
Amortization	2,482	666
Stock option based compensation	9,324	8,689
Recovery of doubtful accounts	(723)	(605)
Deferred income taxes	(6,756)	(478)
Defined benefit plan expense	9,668	7,154
Equity in results of affiliates in excess of cash distributions received	323	289
Changes in balance sheet items, excluding effects from foreign currency adjustments:		
Accounts receivable	(67,815)	(40,455)
Inventories	(22,591)	(20,793)
Prepaid and other current assets	(9,670)	5,163
Accounts payable and accrued liabilities	19,745	10,447
Income taxes payable	9,258	796
Retirement and deferred compensation plans	(7,752)	(20,978)
Other changes, net	11,954	(15,680)
<b>Net Cash Provided by Operations</b>	<b>109,608</b>	<b>84,165</b>
<b>Cash Flows from Investing Activities:</b>		
Capital expenditures	(71,741)	(95,351)
Disposition of property and equipment	2,946	1,229
Investment in unconsolidated affiliate	(13)	(279)
Notes receivable, net	(159)	95
<b>Net Cash Used by Investing Activities</b>	<b>(68,967)</b>	<b>(94,306)</b>
<b>Cash Flows from Financing Activities:</b>		
Repayments of notes payable	(37,407)	(53,792)
Proceeds from long-term obligations	--	539
Repayments of long-term obligations	(1,537)	--
Dividends paid	(33,103)	(29,175)
Credit facility costs	(498)	(1,121)
Proceeds from stock option exercises	31,100	25,003
Purchase of treasury stock	(44,588)	(10,096)
Excess tax benefit from exercise of stock options	3,912	4,380
<b>Net Cash Used by Financing Activities</b>	<b>(82,121)</b>	<b>(64,262)</b>
<b>Effect of Exchange Rate Changes on Cash</b>	<b>1,715</b>	<b>(2,340)</b>
<b>Net Decrease in Cash and Equivalents</b>	<b>(39,765)</b>	<b>(76,743)</b>
<b>Cash and Equivalents at Beginning of Period</b>	<b>229,755</b>	<b>377,616</b>
<b>Cash and Equivalents at End of Period</b>	<b>\$ 189,990</b>	<b>\$ 300,873</b>

See accompanying unaudited notes to condensed consolidated financial statements.



Table of Contents

**AptarGroup, Inc.**

Notes to Condensed Consolidated Financial Statements

(Amounts in Thousands, Except per Share Amounts, or 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 its subsidiaries. The terms "AptarGroup" or "Company" as used herein refer to AptarGroup, Inc. and its 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 disclosure 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, 2012 but does not include all disclosures required by accounting principles generally accepted in the United States of America. Accordingly, these unaudited condensed consolidated financial statements and related notes should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012. 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 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 February 2013, The FASB issued authoritative guidance that amends the presentation of accumulated other comprehensive income and clarifies how to report the effect of significant reclassifications out of accumulated other comprehensive income. The guidance requires footnote disclosures regarding the changes in accumulated other comprehensive income by component and the line items affected in the statements of earnings. The adoption of this standard had no impact on the Condensed Consolidated Financial Statements other than disclosure. Additional information can be found in Note 5 of the Notes to the Condensed Consolidated Financial Statements.

In January 2013, The FASB issued authoritative guidance requiring new asset and liability offsetting disclosures for derivatives, repurchase agreements and security lending transactions to the extent that they are offset in the financial statements or are subject to an enforceable master netting arrangement or similar agreement. We do not have any repurchase agreements and do not participate in securities lending transactions. Our derivative instruments are not offset in the financial statements. Accordingly, the adoption of this standard had no impact on the Condensed Consolidated Financial Statements other than disclosure. Additional information can be found in Note 6 of the Notes to the Condensed Consolidated Financial Statements.

**INCOME TAXES**

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

In its 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 its 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 its accumulated foreign earnings and only will make a distribution out of current year earnings to meet the cash needs at the parent company. As such, the Company does not provide taxes on earnings that are deemed to be permanently reinvested. The effective tax rate for 2013 includes the tax cost of repatriating \$77 million of current year earnings, all of which was repatriated in the first half of 2013.

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 13 of the Notes to the Condensed Consolidated Financial Statements for more information.

NOTE 2 - INVENTORIES

At June 30, 2013 and December 31, 2012, approximately 18% and 19%, respectively, of the total inventories are accounted for by using the LIFO method. Inventories, by component, consisted of:

Table of Contents

	June 30, 2013	December 31, 2012
Raw materials	\$ 119,754	\$ 125,889
Work in process	94,506	75,261
Finished goods	130,844	127,393
Total	345,104	328,543
Less LIFO Reserve	(7,479)	(6,658)
Total	\$ 337,625	\$ 321,885

NOTE 3 GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill since the year ended December 31, 2012 are as follows by reporting segment:

	Beauty + Home	Pharma	Food + Beverage	Corporate & Other	Total
Goodwill	\$ 179,890	\$ 153,978	\$ 17,684	\$ 1,615	\$ 353,167
Accumulated impairment losses	--	--	--	(1,615)	(1,615)
Balance as of December 31, 2012	\$ 179,890	\$ 153,978	\$ 17,684	\$ --	\$ 351,552
Acquisition	--	--	--	--	--
Foreign currency exchange effects	(2,389)	(2,316)	(117)	--	(4,822)
Goodwill	\$ 177,502	\$ 151,661	\$ 17,567	\$ 1,615	\$ 348,345
Accumulated impairment losses	--	--	--	(1,615)	(1,615)
Balance as of June 30, 2013	\$ 177,502	\$ 151,661	\$ 17,567	\$ --	\$ 346,730

The table below shows a summary of intangible assets as of June 30, 2013 and December 31, 2012.

		June 30, 2013			December 31, 2012		
	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Value	Gross Carrying Amount	Accumulated Amortization	Net Value
<b>Amortized intangible assets:</b>							
Patents	7	\$ 19,314	\$ (18,762)	\$ 552	\$ 19,570	\$ (18,894)	\$ 676
Acquired technology	15	38,399	(2,560)	35,839	38,928	(1,298)	37,630
License agreements and other	5	35,189	(22,336)	12,853	35,780	(22,126)	13,654
Total intangible assets	10	\$ 92,902	\$ (43,658)	\$ 49,244	\$ 94,278	\$ (42,318)	\$ 51,960

Aggregate amortization expense for the intangible assets above for the quarters ended June 30, 2013 and 2012 was \$1,245 and \$317, respectively. Aggregate amortization expense for the intangible assets above for the six months ended June 30, 2013 and 2012 was \$2,482 and \$666, respectively.



## Edgar Filing: APTARGROUP INC - Form 10-Q

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

2013	\$	2,459	(remaining estimated amortization for 2013)
2014		4,901	
2015		4,728	
2016		4,096	
2017		3,409	
2018 and thereafter		29,651	

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 June 30, 2013.

Table of ContentsNOTE 4 RETIREMENT AND DEFERRED COMPENSATION PLANS**Components of Net Periodic Benefit Cost:**

Three months ended June 30,	Domestic Plans		Foreign Plans	
	2013	2012	2013	2012
Service cost	\$ 2,045	\$ 1,808	\$ 959	\$ 509
Interest cost	1,246	1,231	658	630
Expected return on plan assets	(1,474)	(1,404)	(447)	(379)
Amortization of net loss	1,117	965	348	118
Amortization of prior service cost	1	1	92	90
Net periodic benefit cost	\$ 2,935	\$ 2,601	\$ 1,610	\$ 968

Six months ended June 30,	Domestic Plans		Foreign Plans	
	2013	2012	2013	2012
Service cost	\$ 4,270	\$ 3,612	\$ 1,928	\$ 1,028
Interest cost	2,496	2,459	1,323	1,275
Expected return on plan assets	(2,888)	(2,805)	(899)	(767)
Amortization of net loss	2,551	1,929	700	239
Amortization of prior service cost	2	2	185	182
Net periodic benefit cost	\$ 6,431	\$ 5,197	\$ 3,237	\$ 1,957

**EMPLOYER CONTRIBUTIONS**

In order to meet or exceed minimum funding levels required by U.S. law, the Company expects to contribute \$10 million in the second half of 2013 and did not make any contribution during the first half of 2013. The Company also expects to contribute approximately \$4.3 million to its foreign defined benefit plans in 2013 and has contributed approximately \$1.2 million during the first half of 2013.

NOTE 5 ACCUMULATED OTHER COMPREHENSIVE INCOME/(LOSS)**Changes in Accumulated Other Comprehensive Income by Component:**

	Foreign Currency	Defined Benefit Pension Plans	Other	Total
Balance December 31, 2011	\$ 100,593	\$ (39,907)	\$ (368)	\$ 60,318
Other comprehensive loss before reclassifications	(28,817)	--	--	(28,817)
Amounts reclassified from accumulated other comprehensive income	--	1,492	173	1,665
Net current-period other comprehensive (loss)/income	(28,817)	1,492	173	(27,152)
Balance - June 30, 2012	\$ 71,776	\$ (38,415)	\$ (195)	\$ 33,166

Edgar Filing: APTARGROUP INC - Form 10-Q

Balance December 31, 2012	\$	120,097	\$	(59,248)	\$	(166)	\$	60,683
Other comprehensive loss before reclassifications		(29,067)		--		--		(29,067)
Amounts reclassified from accumulated other comprehensive income		--		2,194		30		2,224
Net current-period other comprehensive (loss)/income		(29,067)		2,194		30		(26,843)
Balance - June 30, 2013	\$	91,030	\$	(57,054)	\$	(136)	\$	33,840

Reclassifications Out of Accumulated Other Comprehensive Income:

Details about Accumulated Other Comprehensive Income Components Three months ended June 30,	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line in the Statement Where Net Income is Presented
	2013	2012	
<b>Defined Benefit Pension Plans</b>			
Amortization of net loss	\$ 1,465	\$ 1,083	(a)
Amortization of prior service cost	93	91	(a)
	1,558	1,174	Total before tax
	(543)	(430)	Tax benefit
	\$ 1,015	\$ 744	Net of tax
<b>Other</b>			
Changes in treasury locks	23	22	Interest Expense
Net loss on derivatives	--	--	
	23	22	Total before tax
	(8)	143	Tax benefit
	\$ 15	\$ 165	Net of tax
Total reclassifications for the period	\$ 1,030	\$ 909	

(a) These accumulated other comprehensive income components are included in the computation of net periodic benefit costs, net of tax (see Note 4 Retirement and Deferred Compensation Plans for additional details).

Table of Contents

Details about Accumulated Other	Amount Reclassified from Accumulated		Affected Line in the Statement	
Comprehensive Income Components	Other Comprehensive Income		Where Net Income is	
Six months ended June 30,	2013		2012	Presented
<b>Defined Benefit Pension Plans</b>				
Amortization of net loss	\$	3,251	\$	2,168 (b)
Amortization of prior service cost		187		184 (b)
		3,438		2,352 Total before tax
		(1,244)		(860) Tax benefit
	\$	2,194	\$	1,492 Net of tax
<b>Other</b>				
Changes in treasury locks		46		45 Interest Expense
Net loss on derivatives		--		(10) Interest Income
		46		35 Total before tax
		(16)		138 Tax benefit
	\$	30	\$	173 Net of tax
<b>Total reclassifications for the period</b>	<b>\$</b>	<b>2,224</b>	<b>\$</b>	<b>1,665</b>

(b) These accumulated other comprehensive income components are included in the computation of net periodic benefit costs, net of tax (see Note 4 Retirement and Deferred Compensation Plans for additional details).

NOTE 6 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 its 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. 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.

**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 entities. A strengthening U.S. dollar relative to foreign currencies has a dilutive translation effect on the Company's financial condition and results of operations. Conversely, a weakening U.S. dollar has an additive 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 its 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 June 30, 2013, the Company has recorded the fair value of foreign currency forward exchange contracts of \$2.1 million in prepaid and other, \$0.4 million in miscellaneous other assets, \$1.9 million in accounts payable and accrued liabilities, and \$0.3 million in deferred and other non-current liabilities in the balance sheet. All forward exchange contracts outstanding as of June 30, 2013 had an aggregate contract amount of \$119.7 million.

Table of Contents

**Fair Value of Derivative Instruments in the Condensed Consolidated Balance Sheets as of June 30, 2013  
and December 31, 2012**

Derivative Contracts Not Designated as Hedging Instruments	Balance Sheet Location	June 30, 2013	December 31, 2012
<b>Derivative Assets</b>			
Foreign Exchange Contracts	Prepaid and other	\$ 2,112	\$ 332
Foreign Exchange Contracts	Miscellaneous Other Assets	390	982
		\$ 2,502	\$ 1,314
<b>Derivative Liabilities</b>			
Foreign Exchange Contracts	Accounts payable and accrued liabilities	\$ 1,910	\$ 2,097
Foreign Exchange Contracts	Deferred and other non-current liabilities	279	164
		\$ 2,189	\$ 2,261

**The Effect of Derivative Instruments on the Condensed Consolidated Statements of Income  
for the Quarters Ended June 30, 2013 and June 30, 2012**

Derivatives Not Designated as Hedging Instruments	Location of Gain or (Loss) Recognized in Income on Derivative	Amount of Gain or (Loss) Recognized in Income on Derivative	
		2013	2012
Foreign Exchange Contracts	Other Income (Expense) Miscellaneous, net	\$ 2,555	\$ (8,351)
		\$ 2,555	\$ (8,351)

**The Effect of Derivative Instruments on the Condensed Consolidated Statements of Income  
for the Six Months Ended June 30, 2013 and June 30, 2012**

Derivatives Not Designated as Hedging Instruments	Location of Loss Recognized in Income on Derivative	Amount of Loss Recognized in Income on Derivative	
		2013	2012
Foreign Exchange Contracts	Other Income (Expense) Miscellaneous, net	\$ (43)	\$ (1,235)
		\$ (43)	\$ (1,235)

Edgar Filing: APTARGROUP INC - Form 10-Q

Description	Gross Amount	Gross Amounts Offset in the Financial Position	Net Amounts Presented in the Statement of Financial Position	Gross Amounts not Offset in the Statement of Financial Position	Cash Collateral Received	Net Amount
<b>2013</b>						
Derivative Assets	\$ 2,502	--	\$ 2,502	--	--	\$ 2,502
<b>Total Assets</b>	<b>\$ 2,502</b>	<b>--</b>	<b>\$ 2,502</b>	<b>--</b>	<b>--</b>	<b>\$ 2,502</b>
Derivative Liabilities	\$ 2,189	--	\$ 2,189	--	--	\$ 2,189
<b>Total Liabilities</b>	<b>\$ 2,189</b>	<b>--</b>	<b>\$ 2,189</b>	<b>--</b>	<b>--</b>	<b>\$ 2,189</b>
<b>2012</b>						
Derivative Assets	\$ 1,314	--	\$ 1,314	--	--	\$ 1,314
<b>Total Assets</b>	<b>\$ 1,314</b>	<b>--</b>	<b>\$ 1,314</b>	<b>--</b>	<b>--</b>	<b>\$ 1,314</b>
Derivative Liabilities	\$ 2,261	--	\$ 2,261	--	--	\$ 2,261
<b>Total Liabilities</b>	<b>\$ 2,261</b>	<b>--</b>	<b>\$ 2,261</b>	<b>--</b>	<b>--</b>	<b>\$ 2,261</b>

Table of Contents

NOTE 7 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 including the proceeding noted below. 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 that 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.

In 2010, a competitor filed a lawsuit against certain AptarGroup, Inc. subsidiaries alleging that certain processes performed by a supplier of a specific type of diptube utilized by the AptarGroup, Inc. subsidiaries in the manufacture of a specific type of pump infringes patents owned by the counterparty. This lawsuit sought an injunction barring the manufacture, use, sale and importation of this specific pump for use in fragrance containers. In April 2012, the Company's United States subsidiary was found to have infringed on patents owned by the counterparty within the United States. The ruling does not apply to the manufacture or sales of pumps in countries outside the United States and no damages were assessed. The Company has appealed this ruling and the appeal is pending with oral argument scheduled to take place in August 2013.

Under its Certificate of Incorporation, the Company has agreed to indemnify its officers and directors for certain events or occurrences while the officer or director is, or was serving, at its 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 its exposure. As a result of its 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 June 30, 2013.

NOTE 8 STOCK REPURCHASE PROGRAM

During the three and six months ended June 30, 2013, the Company repurchased approximately 600 thousand and 801 thousand shares for aggregate amounts of \$33.8 million and \$44.6 million, respectively. The timing of and total amount expended for share repurchases depends upon market conditions. The Company announced the existing repurchase program on July 19, 2011 and, as of June 30, 2013, the Company had remaining authorization to repurchase 1.2 million additional shares. On July 18, 2013, the Company's Board of Directors authorized the Company to repurchase an additional four million shares of its outstanding common stock. There is no expiration date for these repurchase programs.

NOTE 9 EARNINGS PER SHARE

AptarGroup's authorized common stock consists of 199 million shares, having a par value of \$.01 each. Information related to the calculation of earnings per share is as follows:

	<b>Three months ended</b>	
<b>June 30, 2013</b>		<b>June 30, 2012</b>



Edgar Filing: APTARGROUP INC - Form 10-Q

	Diluted		Basic		Diluted		Basic	
<b>Consolidated operations</b>								
Income available to common shareholders	\$	49,802	\$	49,802	\$	41,686	\$	41,686
<b>Average equivalent shares</b>								
Shares of common stock		66,420		66,420		66,580		66,580
Effect of dilutive stock based compensation								
Stock options		1,682		--		2,174		--
Restricted stock		4		--		4		--
Total average equivalent shares		68,106		66,420		68,758		66,580
Net income per share	\$	0.73	\$	0.75	\$	0.61	\$	0.63

	June 30, 2013		Six months ended		June 30, 2012			
	Diluted		Basic		Diluted		Basic	
<b>Consolidated operations</b>								
Income available to common stockholders	\$	89,831	\$	89,831	\$	85,495	\$	85,495
<b>Average equivalent shares</b>								
Shares of common stock		66,288		66,288		66,388		66,388
Effect of dilutive stock based compensation								
Stock options		2,043		--		2,543		--
Restricted stock		8		--		9		--
Total average equivalent shares		68,339		66,288		68,940		66,388
Net income per share	\$	1.31	\$	1.36	\$	1.24	\$	1.29

Table of ContentsNOTE 10 SEGMENT INFORMATION

The Company operates in the packaging components industry, which includes the development, manufacture and sale of consumer product dispensing systems. The Company is organized into three reporting segments. Operations that sell dispensing systems primarily to the personal care, fragrance/cosmetic and home care markets form the Beauty + Home segment. Operations that sell dispensing systems primarily to the prescription drug and consumer health care markets form the Pharma segment. Operations that sell dispensing systems 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, 2012. Segment income is defined as earnings before net interest expense, certain corporate expenses, restructuring initiatives and related depreciation and income taxes.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>Total Revenue:</b>				
Beauty + Home	\$ 378,828	\$ 372,853	\$ 746,011	\$ 753,689
Pharma	182,995	133,033	351,888	273,234
Food + Beverage	83,570	75,684	168,903	151,506
<b>Total Revenue</b>	<b>645,393</b>	<b>581,570</b>	<b>1,266,802</b>	<b>1,178,429</b>
<b>Less: Intersegment Sales:</b>				
Beauty + Home	\$ 3,844	\$ 3,569	\$ 7,555	\$ 7,254
Pharma	64	54	88	212
Food + Beverage	44	444	85	962
<b>Total Intersegment Sales</b>	<b>\$ 3,952</b>	<b>\$ 4,067</b>	<b>\$ 7,728</b>	<b>\$ 8,428</b>
<b>Net Sales:</b>				
Beauty + Home	\$ 374,984	\$ 369,284	\$ 738,456	\$ 746,435
Pharma	182,931	132,979	351,800	273,022
Food + Beverage	83,526	75,240	168,818	150,544
<b>Net Sales</b>	<b>\$ 641,441</b>	<b>\$ 577,503</b>	<b>\$ 1,259,074</b>	<b>\$ 1,170,001</b>
<b>Segment Income (1):</b>				
Beauty + Home	\$ 30,339	\$ 33,546	\$ 54,754	\$ 66,518
Pharma	50,437	31,110	96,417	70,482
Food + Beverage	11,864	7,744	20,414	14,532
Restructuring Initiatives and Related Depreciation	(3,067)	215	(7,593)	215
Corporate & Other	(8,707)	(6,964)	(19,492)	(15,605)
<b>Income before interest and taxes</b>	<b>\$ 80,866</b>	<b>\$ 65,651</b>	<b>\$ 144,500</b>	<b>\$ 136,142</b>
Interest expense, net	(4,596)	(3,110)	(8,828)	(7,324)
<b>Income before income taxes</b>	<b>\$ 76,270</b>	<b>\$ 62,541</b>	<b>\$ 135,672</b>	<b>\$ 128,818</b>

(1) The Company evaluates performance of its business units and allocates resources based upon segment income. Segment income is defined as earnings before net interest expense, certain corporate expenses, restructuring initiatives and income taxes. Restructuring Initiatives and Related Depreciation includes the following income/(expense) items for the three and six months ended June 30, 2013 as follows:

Edgar Filing: APTARGROUP INC - Form 10-Q

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
<b>European Operations Optimization ( EOO ) Plan</b>				
Depreciation	\$ 556	\$ --	\$ 1,015	\$ --
Employee Severance and Other Costs	2,555	--	6,622	--
<b>Prior Year Initiatives</b>	(44)	(215)	(44)	(215)
Total Restructuring Initiatives and Related Depreciation Expense	\$ 3,067	\$ (215)	\$ 7,593	\$ (215)
<b>Restructuring Initiatives and Related Depreciation Expense by Segment</b>				
Beauty + Home	\$ 3,090	\$ (105)	\$ 7,616	\$ (105)
Pharma	--	--	--	--
Food + Beverage	(23)	(110)	(23)	(110)
Total Restructuring Initiatives and Related Depreciation Expense	\$ 3,067	\$ (215)	\$ 7,593	\$ (215)

Table of ContentsNOTE 11 ACQUISITIONS

On July 3, 2012, the Company completed its acquisition of Rumpler - Technologies S.A., together with its direct and indirect subsidiaries ( Stelmi ). Stelmi is a producer of elastomer primary packaging components for injectable drug delivery and operates two manufacturing plants located in the Normandy region of France and also has a research and development facility located near Paris. The Company acquired all of the shares of Stelmi. The purchase price paid for Stelmi (net of cash acquired) was approximately \$188 million and was funded by cash on hand.

Stelmi contributed sales of \$38.6 million and \$74.0 million and pretax income of \$7.7 million and \$14.7 million for the three and six months ended June 30, 2013, respectively. The results of the acquired business for the period from the acquisition date are included in the accompanying consolidated financial statements and are reported in the Pharma reporting segment.

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

	<b>July 3, 2012</b>
<b>Assets</b>	
Cash and equivalents	\$ 68,335
Accounts receivable	23,540
Inventories	16,826
Prepaid and other	3,256
Property, plant and equipment	42,073
Goodwill	111,031
Intangible assets	47,134
Other miscellaneous assets	6,092
<b>Liabilities</b>	
Current maturities of long-term obligations	675
Accounts payable and accrued liabilities	26,064
Long-term obligations	885
Deferred income taxes	22,440
Retirement and deferred compensation plans	12,049
<b>Net assets acquired</b>	<b>\$ 256,174</b>

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:

	<b>Weighted-Average Useful Life (in years)</b>	<b>Estimated Fair Value of Asset</b>
Customer relationships	15	\$ 7,438
Technology	15	37,191
Trademark	4	2,505
Total		\$ 47,134

Goodwill in the amount of \$111.0 million was recorded for the acquisition of Stelmi and is included in the Pharma segment. Goodwill is calculated as the excess of the consideration transferred over the net assets acquired and represents the estimated future economic benefits arising from other assets acquired that could not be individually identified and separately recognized. Goodwill largely consists of leveraging the Company's commercial presence in selling the Stelmi line of products in markets where Stelmi didn't previously operate and the ability of Stelmi to maintain its

## Edgar Filing: APTARGROUP INC - Form 10-Q

competitive advantage from a technical viewpoint. Goodwill will not be amortized, but will be tested for impairment at least annually. We do not expect that any of the goodwill will be deductible for tax purposes.

The unaudited pro forma results presented below include the effects of the Stelmi acquisition as if it had occurred as of January 1, 2011. The unaudited pro forma results reflect certain adjustments related to the acquisition, such as the amortization associated with estimates for the acquired intangible assets and fair value adjustments for inventory. The pro forma results do not include any synergies or other expected benefits of the acquisition. Accordingly, the unaudited pro forma financial information below is not necessarily indicative of either future results of operations or results that might have been achieved had the acquisition been completed on the dates indicated.

Table of Contents

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net Sales	\$ 641,441	\$ 608,588	\$ 1,259,074	\$ 1,234,062
Net Income Attributable to AptarGroup Inc.	49,802	47,681	89,839	94,211
Net Income per common share - basic	0.75	0.72	1.36	1.42
Net Income per common share - diluted	0.73	0.69	1.31	1.37

NOTE 12 STOCK-BASED COMPENSATION

The Company issues stock options and restricted stock units to employees under Stock Awards Plans approved by shareholders. Stock options are issued to non-employee directors for their services as directors under Director Stock Option Plans approved by shareholders. 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. Restricted stock units generally vest over three years.

Compensation expense recorded attributable to stock options for the first half of 2013 was approximately \$9.3 million (\$6.2 million after tax). The income tax benefit related to this compensation expense was approximately \$3.1 million. Approximately \$8.3 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 recorded attributable to stock options for the first half of 2012 was approximately \$8.7 million (\$5.8 million after tax). The income tax benefit related to this compensation expense was approximately \$2.9 million. Approximately \$7.8 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 \$10.07 and \$10.35 per share in 2013 and 2012, respectively. These values were estimated on the respective dates of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

## Stock Awards Plans:

Six months ended June 30,	2013	2012
Dividend Yield	1.8%	1.8%
Expected Stock Price Volatility	22.7%	22.9%
Risk-free Interest Rate	1.2%	1.3%
Expected Life of Option (years)	6.9	6.9

The fair value of stock options granted under the Director Stock Option Plan during the second quarter of 2013 was \$10.89. The fair value of stock options granted under the Director Stock Option Plan during the second quarter of 2012 was \$10.59. These values were estimated on the respective date of the grant using the Black-Scholes option-pricing model with the following weighted-average assumptions:

## Director Stock Option Plans:

Six months ended June 30,	2013	2012
Dividend Yield	1.9%	1.7%
Expected Stock Price Volatility	23.0%	22.5%
Risk-free Interest Rate	1.3%	1.3%

Edgar Filing: APTARGROUP INC - Form 10-Q

Expected Life of Option (years)

6.9

6.9

A summary of option activity under the Company's stock option plans during the first half of 2013 is presented below:

	Stock Awards Plans		Director Stock Option Plans	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
<b>Outstanding, January 1, 2013</b>	7,879,197	\$ 37.27	276,667	\$ 45.48
<b>Granted</b>	1,335,300	51.57	85,500	56.49
<b>Exercised</b>	(1,065,594)	27.96	(18,500)	41.11
<b>Forfeited or expired</b>	(33,527)	46.03	--	--
<b>Outstanding at June 30, 2013</b>	8,115,376	\$ 40.81	343,667	\$ 48.46
<b>Exercisable at June 30, 2013</b>	5,579,645	\$ 36.13	175,834	\$ 42.44
Weighted-Average Remaining Contractual Term (Years):				
<b>Outstanding at June 30, 2013</b>	6.5		8.0	
<b>Exercisable at June 30, 2013</b>	5.3		6.8	
Aggregate Intrinsic Value (\$000):				
<b>Outstanding at June 30, 2013</b>	\$ 116,880		\$ 2,430	
<b>Exercisable at June 30, 2013</b>	\$ 106,473		\$ 2,245	
Intrinsic Value of Options Exercised (\$000) During the Six Months Ended:				
<b>June 30, 2013</b>	\$ 28,188		\$ 285	
June 30, 2012	\$ 25,101		\$ 509	

Table of Contents

The grant date fair value of options vested during the six months ended June 30, 2013 and 2012 was \$12.9 million and \$12.1 million, respectively. Cash received from option exercises was approximately \$31.1 million and the actual tax benefit realized for the tax deduction from option exercises was approximately \$6.2 million in the six months ended June 30, 2013. As of June 30, 2013, the remaining valuation of stock option awards to be expensed in future periods was \$13.4 million and the related weighted-average period over which it is expected to be recognized is 1.5 years.

The fair value of restricted stock unit grants is the market price of the underlying shares on the grant date. A summary of restricted stock unit activity as of June 30, 2013, and changes during the period then ended is presented below:

	Shares	Weighted-Average Grant-Date Fair Value
<b>Nonvested at January 1, 2013</b>	25,862	\$ 48.76
<b>Granted</b>	9,948	53.94
<b>Vested</b>	(11,208)	44.27
<b>Nonvested at June 30, 2013</b>	24,602	\$ 52.90

Compensation expense recorded attributable to restricted stock unit grants for the first half of 2013 and 2012 was approximately \$493 thousand and \$282 thousand, respectively. The fair value of units vested during the six months ended June 30, 2013 and 2012 was \$496 thousand and \$316 thousand, respectively. The intrinsic value of units vested during the six months ended June 30, 2013 and 2012 was \$582 thousand and \$448 thousand, respectively. As of June 30, 2013 there was \$545 thousand of total unrecognized compensation cost relating to restricted stock unit awards which is expected to be recognized over a weighted-average period of 1.5 years.

NOTE 13 INCOME TAX UNCERTAINTIES

The Company had approximately \$8.4 million and \$8.5 million recorded for income tax uncertainties as of June 30, 2013 and December 31, 2012, respectively. The \$0.1 million change in income tax uncertainties was primarily the result of the expiration of the statute of limitations in several jurisdictions. The amount, if recognized, that would impact the effective tax rate is \$8.0 and \$8.1 million, respectively. The Company estimates that it is reasonably possible that the liability for uncertain tax positions will decrease by no more than \$5.0 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.

NOTE 14 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.



## Edgar Filing: APTARGROUP INC - Form 10-Q

As of June 30, 2013, the fair values of our financial assets and liabilities were categorized as follows:

		<b>Total</b>		<b>Level 1</b>		<b>Level 2</b>		<b>Level 3</b>
<b>Assets</b>								
Forward exchange contracts (a)	\$	2,502	\$	--	\$	2,502	\$	--
Total assets at fair value	\$	2,502	\$	--	\$	2,502	\$	--
<b>Liabilities</b>								
Forward exchange contracts (a)	\$	2,189	\$	--	\$	2,189	\$	--
Total liabilities at fair value	\$	2,189	\$	--	\$	2,189	\$	--

As of December 31, 2012, the fair values of our financial assets and liabilities were categorized as follows:

		<b>Total</b>		<b>Level 1</b>		<b>Level 2</b>		<b>Level 3</b>
<b>Assets</b>								
Forward exchange contracts (a)	\$	1,314	\$	--	\$	1,314	\$	--
Total assets at fair value	\$	1,314	\$	--	\$	1,314	\$	--
<b>Liabilities</b>								
Forward exchange contracts (a)	\$	2,261	\$	--	\$	2,261	\$	--
Total liabilities at fair value	\$	2,261	\$	--	\$	2,261	\$	--

Table of Contents

(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, notes payable and current maturities of long-term obligations approximate fair value due to the short-term maturity of the instrument. The Company considers its 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 \$367 million as of June 30, 2013 and \$382 million as of December 31, 2012.

NOTE 15 - RESTRUCTURING INITIATIVE

On November 1, 2012, the Company announced a plan to optimize certain capacity in Europe (the "EOO" plan). Due to increased production efficiencies and to better position the Company for future growth in Europe, AptarGroup will transfer and consolidate production capacity involving twelve facilities. Two facilities, one in Italy and one in Switzerland, are expected to close and will impact approximately 170 employees. The locations involved in the EOO plan are facilities that are serving the beauty, personal care, food, beverage, and consumer health care markets. The total costs associated with the plan are estimated to be approximately \$14 million (approximately \$18 million using current exchange rates) of which approximately \$4 million (approximately \$6 million using current exchange rates) relates to non-cash expenses and will be included in depreciation and amortization in the Condensed Consolidated Statements of Income. The cumulative expense incurred to date is \$12.5 million. As of June 30, 2013 we have recorded the following activity associated with our EOO plan:

	<b>Beginning Reserve at 12/31/12</b>	<b>Net Charges for the Six Months Ended 6/30/13</b>	<b>Cash Paid</b>	<b>FX Impact</b>	<b>Ending Reserve at 6/30/13</b>
Employee severance	\$ 3,158	\$ 5,345	\$ (3,375)	\$ (85)	\$ 5,043
Other costs	--	1,277	(1,246)	3	34
<b>Totals</b>	<b>\$ 3,158</b>	<b>\$ 6,622</b>	<b>\$ (4,621)</b>	<b>\$ (82)</b>	<b>\$ 5,077</b>

In addition to the above charges, \$1.0 million of accelerated depreciation was incurred in the first half of 2013. This amount is included within depreciation and amortization in the Condensed Consolidated Statements of Income.

Table of Contents

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(AMOUNTS IN THOUSANDS, EXCEPT PER SHARE AMOUNTS, OR OTHERWISE INDICATED)

RESULTS OF OPERATIONS

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost of sales (exclusive of depreciation and amortization shown below)	67.3	67.6	67.5	67.6
Selling, research & development and administrative	13.7	15.2	14.5	15.1
Depreciation and amortization	6.0	5.6	5.9	5.6
Restructuring initiatives	0.4	--	0.5	--
Operating Income	12.6	11.6	11.6	11.7
Other expense	(0.7)	(0.8)	(0.8)	(0.7)
Income before Income Taxes	11.9	10.8	10.8	11.0
Net Income	7.8%	7.2%	7.1%	7.3%
Effective Tax Rate	34.6%	33.4%	33.8%	33.7%

NET SALES

We reported net sales of \$641.4 million for the quarter ended June 30, 2013, 11% above second quarter 2012 reported net sales of \$577.5 million. Stelmi sales were \$38.6 million which contributed 7% to the reported increase in the quarterly sales. The average U.S. dollar exchange rate weakened relative to the Euro. However, this weakness was offset by strengthening of the U.S. dollar compared to other foreign currencies, such as the Brazilian Real, Swiss Franc and British Pound, in the second quarter of 2013 compared to the second quarter of 2012, and as a result, changes in exchange rates did not have a material impact on our reported sales growth. Excluding acquisitions and changes in foreign currency rates, sales increased by 4% in the second quarter of 2013 compared to the second quarter of 2012.

For the first half of 2013, we reported net sales of \$1.3 billion, 8% above the first half 2012 reported net sales of \$1.2 billion. Stelmi sales were \$74.0 million which contributed 6% to the reported increase in the first half sales. Consistent with the second quarter, the average U.S. dollar exchange rate weakened relative to the Euro but was offset by strengthening of the U.S. dollar compared to other foreign currencies, such as the Brazilian Real, Swiss Franc and British Pound, which resulted in no material impact from changes in exchange rates on our reported sales growth. Excluding acquisitions and changes in foreign currency rates, sales increased 2% in the first half of 2013 compared to the first half of 2012.

For further discussion on net sales by reporting segment, please refer to the segment analysis of net sales and segment income on the following pages.

The following table sets forth, for the periods indicated, net sales by geographic location:

Edgar Filing: APTARGROUP INC - Form 10-Q

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013	% of Total	2012	% of Total	2013	% of Total	2012	% of Total
Domestic	\$ 169,245	26%	\$ 166,320	29%	\$ 326,473	26%	\$ 337,629	29%
Europe	362,278	57%	305,610	53%	718,804	57%	631,319	54%
Other								
Foreign	109,918	17%	105,573	18%	213,797	17%	201,053	17%
	\$ 641,441		\$ 577,503		\$ 1,259,074		\$ 1,170,001	

COST OF SALES (EXCLUSIVE OF DEPRECIATION AND AMORTIZATION SHOWN BELOW)

Our cost of sales as a percent of net sales decreased to 67.3% in the second quarter of 2013 compared to 67.6% in the same period a year ago. The decrease is partially due to increased sales volumes in our core Pharma segment and the incremental sales related to our Stelmi acquisition. This positively impacts our cost of sales percentage as margins on our pharmaceutical products typically are higher than the overall Company average. Also contributing to the decrease in cost of sales percentage are cost savings initiatives, including savings related to our EOO plan, and decreases in resin costs. While the majority of resin cost decreases are passed along to our customers in our selling prices, we typically experience a lag in the timing of passing on these cost decreases.

Cost of sales as a percent of net sales decreased slightly to 67.5% in the first half of 2013 compared to 67.6% in the same period a year ago. As discussed above, this decrease is mainly due to the incremental sales volumes related to our Stelmi acquisition, which carry a higher margin than the overall Company average.

Table of Contents

SELLING, RESEARCH & DEVELOPMENT AND ADMINISTRATIVE

Our Selling, Research & Development and Administrative expenses ( SG&A ) slightly increased by approximately \$0.3 million in the second quarter of 2013 compared to the same period a year ago. Excluding changes in foreign currency rates, SG&A was flat in the quarter. SG&A expenses for Stelmi of \$5.2 million in 2013 were nearly equal to the \$5.5 million of professional fees related to the acquisition of Stelmi recorded in 2012. SG&A as a percentage of net sales decreased to 13.7% compared to 15.2% in the same period of the prior year due to acquisition fees in 2012. Higher sales in 2013 are the primary reason for this decrease.

SG&A increased by approximately \$6.1 million in the first half of 2013 compared to the same period a year ago. Excluding changes in foreign currency rates, SG&A increased by approximately \$6.3 million in the first half of the year. We recorded Stelmi operational expenses of \$9.9 million in 2013 while \$5.8 million of professional fees related to the acquisition of Stelmi were recorded in 2012. The remaining increase is due to an increase in personnel costs and stock compensation expenses due to higher substantive vesting requirements in the first quarter of 2013. SG&A as a percentage of net sales decreased to 14.5% in the first half of 2013 compared to 15.1% in the first half of 2012 again primarily due to higher sales in 2013.

DEPRECIATION AND AMORTIZATION

Reported depreciation and amortization expenses increased by approximately \$6.0 million in the second quarter of 2013 compared to the same period a year ago. Excluding changes in foreign currency rates, depreciation and amortization increased by approximately \$5.8 million in the quarter compared to the same period a year ago. This increase is primarily related to \$2.6 million of Stelmi costs reported in the second quarter of 2013 and \$1.5 million of accelerated depreciation on certain corporate assets. The remaining increase is related to the additional investments in our new products, especially in the Food + Beverage segment, along with continued roll-out of our global enterprise resource planning system and approximately \$0.6 million related to our EOO plan. Excluding acquisitions, depreciation and amortization as a percentage of net sales increased to 6.0% in the second quarter of 2013 compared to 5.6% for the same period a year ago mainly due to the EOO and additional investments in our business.

For the first half of 2013, reported depreciation and amortization expenses increased by approximately \$9.6 million compared to the first half of 2012. Excluding changes in foreign currency rates, depreciation and amortization increased by approximately \$9.5 million in the first half. Incremental Stelmi depreciation, the accelerated depreciation on certain corporate assets and the EOO plan represented \$4.8 million, \$1.5 million and \$1.0 million, respectively of this increase with the investments in our business making up the remaining increase. Excluding acquisitions, depreciation and amortization as a percentage of net sales also increased slightly to 5.9% compared to 5.6% for the same period a year ago.

RESTRUCTURING INITIATIVES

On November 1, 2012, the Company announced the EOO plan. Due to increased production efficiencies and to better position the Company for future growth in Europe, AptarGroup will transfer and consolidate production capacity involving twelve facilities. Under the EOO plan, we have closed one facility in Italy and a second facility in Switzerland is expected to close impacting approximately 170 employees. During the three and six months ended June 30, 2013, we recognized \$2.6 million and \$6.6 million of restructuring expenses, respectively, along with the \$0.6 million and \$1.0 million of accelerated depreciation of assets, respectively, mentioned above. Using current exchange rates, we expect to recognize approximately \$6 million in additional costs, most of which will be incurred in 2013. Annual savings are estimated to be approximately 9 million (approximately \$12 million using current exchange rates) beginning in late 2013.

OPERATING INCOME

## Edgar Filing: APTARGROUP INC - Form 10-Q

Operating income, including the negative impact of EOO plan charges of \$3.1 million, increased approximately \$13.8 million in the second quarter of 2013 to \$80.9 million compared to \$67.1 million in the same period in the prior year. Excluding changes in currency rates, operating income increased by approximately \$12.9 million in the quarter. The primary reason for the increases in operating income over the prior year is the impact of Aptar Stelmi in the 2013 results while last year we had approximately \$5.5 million of expense related to Stelmi acquisition costs. In addition, improved results in our Pharma and Food + Beverage segments contributed to the increase in operating income. Operating income as a percentage of net sales increased to 12.6% in the second quarter of 2013 compared to 11.6% for the same period in the prior year.

Operating income increased approximately \$8.1 million in the first half of 2013 to \$145.5 million compared to \$137.4 million in the same period in the prior year. Excluding changes in currency rates, operating income increased by approximately \$7.1 million in the first half of 2013. Excluding acquisitions and restructuring initiatives, operating income increased slightly by \$0.3 million. Operating income as a percentage of sales decreased slightly to 11.6% in the first half of 2013 compared to 11.7% for the same period in the prior year.

### NET OTHER EXPENSE

Net other expenses in the second quarter of 2013 increased slightly to \$4.6 million from \$4.5 million in the same period in the prior year. This increase is mainly due to increased costs associated with hedges in place to mitigate our foreign currency exposure on cross border transaction.

Table of Contents

Net other expenses for the six months ended June 30, 2013 also increased to \$9.8 million from \$8.6 million in the same period in the prior year. This increase is also mainly due to increased costs of foreign currency hedges mentioned above.

EFFECTIVE TAX RATE

The reported effective tax rate increased to 34.6% and 33.8% for the three and six months ended June 30, 2013 compared to 33.4% and 33.7% for the same periods ended June 30, 2012. The increase in the rate for the three and six months ended June 30, 2013 is related primarily to tax law increases in France related to distributions and interest deductions as well as increases in the Chinese tax rate for 2013. These increases were mostly offset in the first quarter of 2013 by the tax benefits resulting from an Italian tax law change.

NET INCOME ATTRIBUTABLE TO APTARGROUP, INC.

We reported net income attributable to AptarGroup, Inc. of \$49.8 million and \$89.8 million in the three and six months ended June 30, 2013, respectively, compared to \$41.7 million and \$85.5 million for the same periods in the prior year.

BEAUTY + HOME SEGMENT

Operations that sell dispensing systems primarily to the personal care, beauty and home care markets form the Beauty + Home segment.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net Sales	\$ 374,984	\$ 369,284	\$ 738,456	\$ 746,435
Segment Income	30,339	33,546	54,754	66,518
Segment Income as a percentage of Net Sales	8.1%	9.1%	7.4%	8.9%

Net sales for the quarter ended June 30, 2013 increased 2% to \$375.0 million compared to \$369.3 million in the second quarter of the prior year. Changes in foreign currency rates did not have a material impact on reported sales for the quarter ended June 30, 2013. Sales, excluding foreign currency changes, to the beauty market decreased 2% while sales to the personal care market increased 6% in the second quarter of 2013 compared to the same period in the prior year. Geographically, sales increases in Europe and Latin America more than offset continued softness in the North American region. Customer tooling sales, excluding foreign currency changes, decreased in the second quarter of 2013 to \$7.8 million compared to \$10.7 million in the second quarter of the prior year. Increases in resin pass throughs to our customers positively impacted sales by \$0.7 million.

## Edgar Filing: APTARGROUP INC - Form 10-Q

Net sales decreased 1% in the first six months of 2013 to \$738.5 million compared to \$746.4 million in the first six months of the prior year. Changes in foreign currency rates did not have a material impact on reported sales for the first half of 2013. Sales of our products, excluding foreign currency changes, to the beauty market decreased 2% while sales to the personal care market increased 2% in the first half of 2013 compared to the first half of 2012. Geographically, increases in Europe and Latin America partially offset the softness in North America. Customer tooling sales, excluding foreign currency changes, also decreased in the first six months of 2013 to \$14.0 million compared to \$21.0 million in the first half of the prior year.

Segment income for the second quarter of 2013 decreased approximately 10% to \$30.3 million compared to \$33.5 million reported in the prior year. Segment income was negatively impacted by higher labor costs and operational inefficiencies, especially in the North American region.

Segment income in the first six months of 2013 decreased approximately 18% to \$54.8 million compared to \$66.5 million reported in the same period in the prior year. The negative impact of lower product and tooling sales mentioned above along with operational inefficiencies and higher labor costs in North America were the primary causes of the decrease.

### PHARMA SEGMENT

Operations that sell dispensing systems to the prescription drug and consumer health care markets form the Pharma segment.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Net Sales	\$ 182,931	\$ 132,979	\$ 351,800	\$ 273,022
Segment Income	50,437	31,110	96,417	70,482
Segment Income as a percentage of Net Sales	27.6%	23.4%	27.4%	25.8%

Net sales for the Pharma segment increased by 38% in the second quarter of 2013 to \$182.9 million compared to \$133.0 million in the second quarter of 2012. Stelmi sales were \$38.6 million and represented 29% of the increase while foreign currency changes represented 1% of the total segment sales increase. Sales, excluding acquisitions and changes in foreign



Table of Contents

currency rates, increased 8%. Sales, excluding acquisitions and foreign currency changes, to the prescription market increased 6% while sales to the consumer health care market increased 12%.

Net sales for the first six months of 2013 increased approximately 29% to \$351.8 million compared to \$273.0 million in the first six months of the prior year. Stelmi sales were \$74.0 million and represented 27% of the increase. Foreign currency changes had no measureable impact on the total segment sales. Excluding acquisitions and changes in foreign currency rates, sales increased by 2% in the first six months of 2013 compared to the first six months of 2012. Excluding acquisitions and foreign currency rate changes, sales to the prescription and consumer health care markets increased 2% and 1%, respectively, in the first six months of 2013 compared to the same period in the prior year. Decreases in the first quarter related to destocking of inventory by our customers serving the generic allergy market, especially in North America, and softness in the consumer health care market in Europe were more than offset by the return of business in the second quarter.

Segment income in the second quarter of 2013 increased approximately 62% to \$50.4 million compared to \$31.1 million reported in the same period in the prior year. Stelmi segment income was \$7.5 million in the second quarter of 2013. We also reported \$5.5 million of fees related to the Stelmi acquisition in the second quarter of 2012. Excluding Stelmi and the related acquisition fees, segment income increased 17% in the second quarter of 2013 to \$42.9 million compared to \$36.6 million reported in the same period in the prior year. This increase is mainly attributed to the higher sales for both the prescription and consumer health care markets as mentioned above along with better overhead absorption at our Pharma operating facilities.

Segment income in the first six months of 2013 increased approximately 37% to \$96.4 million compared to \$70.5 million reported in the same period of the prior year. Stelmi segment income was \$14.5 million in the first six months of 2013 and we also reported the \$5.8 million of acquisition fees in the first six months of 2012. Excluding Stelmi and the related acquisition fees, segment income increased 7% in the first six months of 2013 to \$81.9 million compared to \$76.3 million reported in the same period in the prior year. This increase is again attributed to the higher sales for both the markets and the improved overhead absorption mentioned above.

FOOD + BEVERAGE SEGMENT

Operations that sell dispensing systems primarily to the food and beverage markets form the Food + Beverage segment.

	<b>Three Months Ended June 30,</b>		<b>Six Months Ended June 30,</b>	
	<b>2013</b>	<b>2012</b>	<b>2013</b>	<b>2012</b>
Net Sales	\$ <b>83,526</b>	\$ 75,240	\$ <b>168,818</b>	\$ 150,544
Segment Income	<b>11,864</b>	7,744	<b>20,414</b>	14,532
Segment Income as a percentage of Net Sales	<b>14.2%</b>	10.3%	<b>12.1%</b>	9.7%

Net sales for the Food + Beverage segment for the quarter ended June 30, 2013 increased approximately 11% to \$83.5 million compared to \$75.2 million in the second quarter of the prior year. Sales, excluding changes in foreign currency rates, increased 10%. Excluding foreign currency changes, sales to the food market increased 6% mainly due to higher infant formula sales in North America. Sales to the beverage market increased approximately 16% where a combination of higher tooling sales and increased product sales globally, especially in Asia for the functional bottled water market, more than offset softness in the European market due to poor weather conditions. Increases in resin pass throughs to our customers also positively impacted sales by \$1.3 million.

Net sales for the first six months of 2013 increased approximately 12% to \$168.8 million compared to \$150.5 million in the first six months of the prior year. Excluding changes in foreign currency rates, sales increased 11%. Sales, excluding foreign currency changes, to the food market increased 10% and sales to the beverage market increased approximately 15% in the first six months of 2013 compared to the same period in the

## Edgar Filing: APTARGROUP INC - Form 10-Q

prior year. The food increase is driven by tooling sales, which increased \$4.4 million over the first half of 2012 and higher infant sales in North America. The beverage increase is mainly due to increased product sales globally, especially in Asia for the functional bottled water market as mentioned above.

Segment income in the second quarter of 2013 increased approximately 53% to \$11.9 million compared to \$7.7 million during the same period in the prior year. Segment income was positively impacted by increased product sales along with improved productivity and overhead cost absorption, particularly in North America. We also benefitted from the positive impact from the timing of resin cost pass throughs mentioned above.

Segment income in the first six months of 2013 increased approximately 40% to \$20.4 million compared to \$14.5 million reported in the same period of the prior year. The strong growth in product sales along with improved manufacturing productivity and cost absorption mentioned above contributed to the improvements in the first six months of 2013 compared to the same period in the prior year.

### CORPORATE & OTHER

In addition to our three operating business segments, AptarGroup assigns certain costs to Corporate & Other, which is presented separately in Note 10 of the Notes to the Condensed Consolidated Financial Statements. Corporate & Other primarily includes certain corporate compensation, professional fees, information system costs and LIFO inventory adjustments which are not allocated directly to our operating segments. Corporate & Other expense increased to \$8.7 million for the quarter ended June 30, 2013 compared to \$7.0 million in the second quarter of the prior year mainly due to a \$1.5 million adjustment for accelerated depreciation on certain corporate assets.

Corporate & Other expense in the first six months of 2013 increased to \$19.5 million compared to \$15.6 million reported in the same period of the prior year. The increase is mainly due to the accelerated depreciation on certain corporate assets noted above and increased costs associated with hedges in place to support our foreign currency cross border transactions.

Table of ContentsFOREIGN CURRENCY

A significant number of our 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 statements of our foreign entities. Our primary foreign exchange exposure is to the Euro, but we also have foreign exchange exposure to the Brazilian Real, British Pound, Swiss Franc and South American and Asian currencies, among others. We manage our exposures to foreign exchange principally with forward exchange contracts to hedge certain transactions and firm purchase and sales commitments denominated in foreign currencies. A strengthening U.S. dollar relative to foreign currencies has a dilutive translation effect on our financial statements. Conversely, a weakening U.S. dollar has an additive effect. In some cases, we sell products denominated in a currency different from the currency in which the related costs are incurred. Changes in exchange rates on such inter-country sales could materially impact our results of operations.

QUARTERLY TRENDS

Our results of operations in the second half of the year typically are negatively impacted by customer plant shutdowns in the summer months in Europe and plant shutdowns in December. In the future, our results of operations in a quarterly period could be impacted by factors such as changes in product mix, changes in material costs, changes in growth rates in the industries to which our products are sold, recognition of equity based compensation expense for retirement eligible employees in the period of grant and changes in general economic conditions in any of the countries in which we do business.

We generally incur increased stock option expense in the first quarter compared with the rest of the fiscal year. Our estimated stock option expense on a pre-tax basis (in \$ millions) for 2013 compared to the prior year is as follows:

	2013		2012	
First Quarter	\$	6.5	\$	5.8
Second Quarter		2.8		2.9
Third Quarter (estimated for 2013)		2.2		2.1
Fourth Quarter (estimated for 2013)		2.1		1.9
	\$	13.6	\$	12.7

LIQUIDITY AND CAPITAL RESOURCES

Our primary sources of liquidity are cash flow from operations and our revolving credit facility. Cash and equivalents decreased to \$190.0 million at June 30, 2013 from \$229.8 million at December 31, 2012. Total short and long-term interest bearing debt also decreased in the first half of 2013 to \$387.9 million from \$427.5 million at December 31, 2012. These decreases are primarily due to the repatriation of approximately \$77.0 million from Europe to the United States during 2013. These repatriated funds were used to pay down our revolving credit facility. The ratio of our Net Debt (interest bearing debt less cash and cash equivalents) to Net Capital (stockholder's equity plus Net Debt) was 12.3% at the end of June 2013 compared to 12.5% at December 31, 2012.

In the first six months of 2013, our operations provided approximately \$109.6 million in cash flow compared to \$84.2 million for the same period a year ago. The increase in cash provided by operations is primarily attributable to the timing of tax payments and pension contributions.

We used \$69.0 million in cash for investing activities during the first half of 2013, compared to \$94.3 million during the same period a year ago. The decrease in cash used for investing activities is due primarily to a decrease in capital expenditures of \$23.6 million in the first half of 2013 compared to the first half of 2012. Cash outlays for capital expenditures for 2013 are estimated to be approximately \$160 million but could vary due to changes in exchange rates as well as the timing of capital projects. Costs related to our recently announced Aptar facility to serve the Andean region are included in the 2013 estimate while the majority of costs associated with our Stelmi expansion are expected in 2014.

## Edgar Filing: APTARGROUP INC - Form 10-Q

We used \$82.1 million in cash for financing activities during the first half of 2013 compared to \$64.3 million during the same period a year ago. The increase in cash used by financing activities is due to an increase of approximately \$34.5 million in purchases of treasury stock in the first half of 2013 compared to the first half of 2012. The increase was partially offset by a decrease in our borrowings as we were able to utilize repatriated funds to pay down our revolving credit facility.

Our U.S. operations generate sufficient cash flows to fund their liquidity needs and do not depend on cash located outside of the U.S. for their operations. Nevertheless, we are a dividend payer and have an active share repurchase program. These two items are funded with operating cash flows from the U.S. and are supplemented by additional borrowings from our revolving credit facility and the repatriations of current year foreign earnings. Specifically, in the U.S., we have an unsecured \$300 million revolving line of credit which was unused and available as of June 30, 2013 and believe we have the ability to borrow additional funds should the need arise. On January 31, 2013, we amended the revolving credit facility to, among other things, add a swingline loan sub-facility and extend the maturity date for the revolving credit facility by one year, to January 31, 2018. To take advantage of low interest rates during the past year, we completed a \$125 million private placement on September 5, 2012, consisting of \$75 million of 10 year notes at an interest rate of 3.25% and \$50 million of 12 year notes at an interest rate of 3.40%.

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

	<u>Requirement</u>	<u>Level at June 30, 2013</u>
Debt to total capital ratio	Maximum of 55%	21.6%

## Edgar Filing: APTARGROUP INC - Form 10-Q

### Table of Contents

Based upon the above debt to total capital ratio covenant we had the ability to borrow approximately an additional \$1.3 billion at June 30, 2013 before the 55% requirement would be exceeded.

Our foreign operations have historically met cash requirements with the use of internally generated cash or borrowings. These foreign subsidiaries have financing arrangements with several foreign banks to fund operations located outside the U.S., but all these lines are uncommitted. Cash generated by foreign operations has generally been reinvested locally. The majority of our \$190.0 million in cash and equivalents is located outside of the U.S. We manage our global cash requirements considering (i) available funds among the many subsidiaries through which we conduct business, (ii) the geographic location of our liquidity needs, and (iii) the cost to access international cash balances. The repatriation of non-U.S. cash balances from certain subsidiaries could have adverse tax consequences as we may be required to pay and record income tax expense on these funds. Historically, the tax consequences associated with repatriating current year earnings to the U.S. has been between 10% and 14% of the repatriated amount. We would not expect future impacts to be materially different.

We believe we are in a strong financial position and have the financial resources to meet business requirements in the foreseeable future. We have historically used cash flow from operations as our primary source of liquidity. Our primary uses of liquidity are to invest in equipment and facilities that are necessary to support our growth and to make acquisitions that will contribute to the achievement of our strategic objectives. The acquisition of the Stelmi group was funded with cash available from our European operations. In the event that customer demand would decrease significantly for a prolonged period of time and negatively impact cash flow from operations, we would have the ability to restrict and significantly reduce capital expenditure levels, as well as evaluate our acquisition strategy and dividend and share repurchase programs. A prolonged and significant reduction in capital expenditure levels could increase future repairs and maintenance costs as well as have a negative impact on operating margins if we were unable to invest in new innovative products.

On July 18, 2013, the Board of Directors declared a quarterly dividend of \$0.25 per share payable on August 21, 2013 to stockholders of record as of July 31, 2013.

### OFF-BALANCE SHEET ARRANGEMENTS

We lease certain warehouse, plant and office facilities as well as certain equipment under noncancelable operating leases expiring at various dates through the year 2029. Most of the operating leases contain renewal options and certain equipment leases include options to purchase during or at the end of the lease term. Other than operating lease obligations, we do not have any off-balance sheet arrangements.

### RECENTLY ISSUED ACCOUNTING STANDARDS

In July 2012, the FASB amended the guidance on the annual testing of indefinite-lived intangible assets (other than goodwill) for impairment. The amended guidance will allow companies to first assess qualitative factors to determine whether it is more-likely-than-not that an indefinite-lived intangible asset might be impaired and whether it is necessary to perform the quantitative impairment test required under current accounting standards. This guidance will be effective for the Company's fiscal year ending December 31, 2013, with early adoption permitted. The Company does not believe that this new guidance will have a material impact on its consolidated financial statements.

In March 2013, the FASB issued guidance which permits an entity to release cumulative translation adjustments into net income when a reporting entity (parent) ceases to have a controlling financial interest in a subsidiary or group of assets that is a business within a foreign entity. Accordingly, the cumulative translation adjustment should be released into net income only if the sale or transfer results in the complete or substantially complete liquidation of the foreign entity in which the subsidiary or group of assets had resided, or, if a controlling financial interest is no longer held. The guidance will be effective for the Company's fiscal years beginning after December 15, 2013; however, early adoption is permitted.

Other accounting standards that have been issued by the FASB or other standards-setting bodies that do not require adoption until a future date are not expected to have a material impact on our consolidated financial statements upon adoption.

### OUTLOOK

Looking to the third quarter, we anticipate that each of our business segments will grow over the prior year. Even though we expect challenges in several of the markets we serve, the diversity of our product portfolio, geographic presence, customer base and end markets, protect us from exposure to softness in any particular market or region.

AptarGroup expects earnings per share for the third quarter to be in the range of \$0.68 to \$0.73 per share compared to \$0.62 per share reported in the prior year. Prior year results include a negative impact of \$0.02 per share from Aptar Stelmi's results which included the acquisition accounting adjustments.

#### FORWARD-LOOKING STATEMENTS

Certain statements in Management's Discussion and Analysis and other sections of this Form 10-Q are forward-looking and involve a number of risks and uncertainties, including certain statements set forth in the Liquidity and Capital Resources, Off Balance Sheet Arrangements, and Operations Outlook sections of this Form 10-Q. Words such as expects, anticipates, believes, estimates, and other similar expressions or future or conditional verbs such as will, should, would and could are intended to identify such forward-looking statements. Forward-looking statements are made pursuant to the safe harbor provisions of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934 and are based on our beliefs as well as assumptions made by and information currently available to us. Accordingly, our actual results may

Table of Contents

differ materially from those expressed or implied in such forward-looking statements due to known or unknown risks and uncertainties that exist in our operations and business environment, including but not limited to:

- economic, environmental and political conditions worldwide;
- changes in customer and/or consumer spending levels;
- the cost of materials and other input costs (particularly resin, metal, anodization costs and transportation and energy costs);
- the availability of raw materials and components (particularly from sole sourced suppliers) as well as the financial viability of these suppliers;
- our ability to contain costs and improve productivity;
- the timing and successful completion of our EOO plan;
- our ability to successfully implement facility expansions and new facility projects, including the Stelmi expansion and Andean project;
- our ability to increase prices;
- significant fluctuations in foreign currency exchange rates;
- changes in capital availability or cost, including interest rate fluctuations;
- volatility of global credit markets;
- the timing and magnitude of capital expenditures;
- our ability to identify potential new acquisitions and to successfully acquire and integrate such operations or products;
- direct or indirect consequences of acts of war or terrorism;
- cybersecurity threats that could impact our networks and reporting systems;
- the impact of natural disasters and other weather-related occurrences;
- fiscal and monetary policy, including changes in worldwide tax rates;
- changes or difficulties in complying with government regulation;
- changing regulations or market conditions regarding environmental sustainability;
- work stoppages due to labor disputes;
- competition, including technological advances;
- our ability to protect and defend our intellectual property rights, as well as litigation involving intellectual property rights;

## Edgar Filing: APTARGROUP INC - Form 10-Q

- the outcome of any legal proceeding that has been or may be instituted against us and others;
- our ability to meet future cash flow estimates to support our goodwill impairment testing;
- the demand for existing and new products;
- our ability to manage worldwide customer launches of complex technical products, in particular in developing markets;
- the success of our customers' products, particularly in the pharmaceutical industry;
- difficulties in product development and uncertainties related to the timing or outcome of product development;
- significant product liability claims; and
- other risks associated with our operations.

Although we believe that our forward-looking statements are based on reasonable assumptions, there can be no assurance that actual results, performance or achievements will not differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on forward-looking statements. We undertake no obligation to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise. Please refer to Item 1A ( Risk Factors ) of Part I included in the Company's Annual Report on Form 10-K for additional risk factors affecting the Company.



Table of Contents

## ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

A significant number of our 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 our entities. Our primary foreign exchange exposure is to the Euro, but we also have foreign exchange exposure to the Brazilian Real, British Pound, Swiss Franc and South American and Asian currencies, among others. A strengthening U.S. dollar relative to foreign currencies has a dilutive translation effect on our financial condition and results of operations. Conversely, a weakening U.S. dollar has an additive effect.

Additionally, in some cases, we sell products denominated in a currency different from the currency in which the related costs are incurred. Any changes in exchange rates on such inter-country sales may impact our results of operations.

We manage our exposures to foreign exchange principally with forward exchange contracts to hedge certain firm purchase and sales commitments and intercompany cash transactions denominated in foreign currencies.

The table below provides information as of June 30, 2013 about our forward currency exchange contracts. The majority of the contracts expire before the end of the third quarter of 2013.

Buy/Sell		Contract Amount (in thousands)	Average Contractual Exchange Rate	Min / Max Notional Volumes
Swiss Franc/Euro	\$	43,302	0.8123	38,316-43,302
Euro/Brazilian Real		23,503	2.9871	21,611-23,503
Euro/U.S. Dollar		20,070	1.3090	7,074-20,070
Euro/Mexican Peso		8,114	18.3494	8,114-8,114
Czech Koruna/Euro		6,255	0.0389	6,213-6,469
U.S. Dollar/Chinese Yuan		6,180	6.1763	4,550-6,180
British Pound/Euro		3,737	1.1768	2,717-3,737
Euro/Chinese Yuan		1,750	8.0544	1,102-2,592
Euro/Russian Rouble		1,689	45.3677	1,689-1,689
U.S. Dollar/Euro		1,648	0.7597	1,636-1,649
U.S. Dollar/Brazilian Real		1,300	2.2130	0-1,300
Other		2,191		
<b>Total</b>	<b>\$</b>	<b>119,739</b>		

As of June 30, 2013, the Company has recorded the fair value of foreign currency forward exchange contracts of \$2.1 million in prepaid and other, \$0.4 million in miscellaneous other assets, \$1.9 million in accounts payable and accrued liabilities and \$0.3 million in deferred and other non-current liabilities in the balance sheet.

The Company had one foreign currency cash flow hedge until March 15, 2012. A French subsidiary of AptarGroup, AptarGroup Holding SAS, had hedged the risk of variability in Euro equivalent associated with the cash flows of an intercompany loan granted in Brazilian Real. The forward contracts utilized were designated as a hedge of the changes in the cash flows relating to the changes in foreign currency rates relating to the loan and related forecasted interest. On March 15, 2012, the loan and foreign currency forward contracts were repaid.

## ITEM 4. CONTROLS AND PROCEDURES

DISCLOSURE CONTROLS AND PROCEDURES

## Edgar Filing: APTARGROUP INC - Form 10-Q

The Company's management has evaluated, with the participation of the chief executive officer and chief financial officer of the Company, the effectiveness of the Company's disclosure controls and procedures (as that term is defined in Rule 13a-15(e) under the Securities Exchange Act of 1934) as of June 30, 2013. Based on that evaluation, the chief executive officer and chief financial officer have concluded that these controls and procedures were effective as of such date.

### CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING

No change in the Company's internal control over financial reporting (as such term is defined in Rule 13a-15(f) under the Securities Exchange Act of 1934) occurred during the Company's fiscal quarter ended June 30, 2013 that materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting.

Table of Contents

## PART II - OTHER INFORMATION

## ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

RECENT SALES OF UNREGISTERED SECURITIES

The employees of AptarGroup S.A.S. and Aptar France S.A.S., our subsidiaries, are eligible to participate in the FCP Aptar Savings Plan (the Plan ). All eligible participants are located outside of the United States. An independent agent purchases shares of our Common Stock available under the Plan for cash on the open market and we do not issue shares. We do not receive any proceeds from the purchase of shares of our Common Stock under the Plan. The agent under the Plan is Banque Nationale de Paris Paribas Fund Services. No underwriters are used under the Plan. All shares are sold in reliance upon the exemption from registration under the Securities Act of 1933 provided by Regulation S promulgated under that Act. During the quarter ended June 30, 2013, the Plan purchased 4,880 shares of our Common Stock on behalf of the participants at an average price of \$56.31 per share, for an aggregate amount of \$275 thousand, and sold 920 shares of our Common Stock on behalf of the participants at an average price of \$56.64 per share, for an aggregate amount of \$52 thousand. At June 30, 2013, the Plan owns 33,891 shares of our Common Stock.

ISSUER PURCHASES OF EQUITY SECURITIES

The following table summarizes the Company's purchases of its securities for the quarter ended June 30, 2013:

Period	Total Number Of Shares Purchased	Average Price Paid Per Share	Total Number Of Shares Purchased As Part Of Publicly Announced Plans Or Programs	Maximum Number Of Shares That May Yet Be Purchased Under The Plans Or Programs
4/1 4/30/13	50,000	\$ 55.39	50,000	1,722,691
5/1 5/31/13	329,721	56.36	329,721	1,392,970
6/1 6/30/13	220,279	56.60	220,279	1,172,691
Total	600,000	\$ 56.37	600,000	1,172,691

The Company announced the existing repurchase program on July 19, 2011. On July 18, 2013, the Company's Board of Directors authorized the Company to repurchase an additional four million shares of its outstanding common stock. There is no expiration date for these repurchase programs.

## ITEM 6. EXHIBITS

## Edgar Filing: APTARGROUP INC - Form 10-Q

- Exhibit 10.1 AptarGroup Performance Incentive Plan, filed as Exhibit 10.1 to AptarGroup, Inc.'s Current Report on Form 8-K filed on May 13, 2013, is hereby incorporated by reference.
- Exhibit 31.1 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 31.2 Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- Exhibit 32.1 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- Exhibit 32.2 Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- Exhibit 101 The following financial information from our Quarterly Report on Form 10-Q for the second quarter of fiscal 2013, filed with the SEC on August 5, 2013, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Income - Three and Six Months Ended June 30, 2013 and 2012, (ii) the Condensed Consolidated Statements of Comprehensive Income - Three and Six Months Ended June 30, 2013 and 2012, (iii) the Condensed Consolidated Balance Sheets - June 30, 2013 and December 31, 2012, (iv) the Condensed Consolidated Statements of Changes in Equity - Six Months Ended June 30, 2013 and 2012, (v) the Condensed Consolidated Statements of Cash Flows - Six Months Ended June 30, 2013 and 2012 and (vi) the Notes to Condensed Consolidated Financial Statements.

Table of Contents

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

AptarGroup, Inc.  
(Registrant)

By /s/ ROBERT W. KUHN  
Robert W. Kuhn  
Executive Vice President,  
Chief Financial Officer and Secretary  
(Duly Authorized Officer and  
Principal Accounting and Financial Officer)

Date: August 5, 2013

Table of Contents

INDEX OF EXHIBITS

<b>Exhibit Number</b>	<b>Description</b>
10.1	AptarGroup Performance Incentive Plan, filed as Exhibit 10.1 to AptarGroup, Inc.'s Current Report on Form 8-K filed on May 13, 2013, is hereby incorporated by reference.
31.1	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2	Certification Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification Pursuant to 18 U.S.C. Section 1350, as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	The following financial information from our Quarterly Report on Form 10-Q for the second quarter of fiscal 2013, filed with the SEC on August 5, 2013, formatted in Extensible Business Reporting Language (XBRL): (i) the Condensed Consolidated Statements of Income - Three and Six Months Ended June 30, 2013 and 2012, (ii) the Condensed Consolidated Statements of Comprehensive Income - Three and Six Months Ended June 30, 2013 and 2012, (iii) the Condensed Consolidated Balance Sheets - June 30, 2013 and December 31, 2012, (iv) the Condensed Consolidated Statements of Changes in Equity - Six Months Ended June 30, 2013 and 2012, (v) the Condensed Consolidated Statements of Cash Flows - Six Months Ended June 30, 2013 and 2012 and (vi) the Notes to Condensed Consolidated Financial Statements.

---