APTARGROUP INC
Form 10-Q
August 02, 2017
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED JUNE 30, 2017

OR

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

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NUMBER 1-11846

AptarGroup, Inc.

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

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

815-477-0424

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

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

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

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

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

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

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 27, 2017
Common Stock, $.01 par value per share	62,724,479 shares

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AptarGroup, Inc.

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Quarter Ended June 30, 2017

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

AptarGroup, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

In thousands, except per share amounts

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net Sales	$ 617,746	$ 619,999	$ 1,219,062	$ 1,202,337
Operating Expenses:				
Cost of sales (exclusive of depreciation and amortization shown below)	399,954	389,863	784,886	764,066
Selling, research & development and administrative	95,659	96,131	197,175	199,146
Depreciation and amortization	37,242	40,390	74,573	76,277
	532,855	526,384	1,056,634	1,039,489
Operating Income	84,891	93,615	162,428	162,848
Other (Expense) Income:				
Interest expense	(7,712)	(9,203)	(15,974)	(17,794)
Interest income	643	460	973	1,044
Equity in results of affiliates	(22)	(51)	(70)	(172)
Miscellaneous, net	1,768	(463)	1,691	(1,723)
	(5,323)	(9,257)	(13,380)	(18,645)
Income before Income Taxes	79,568	84,358	149,048	144,203
Provision for Income Taxes	14,379	25,307	32,054	41,286
Net Income	$ 65,189	$ 59,051	$ 116,994	$ 102,917
	$ (15)	$ (3)	$ —	$ (6)

Net Income Attributable to Noncontrolling Interests				
Net Income Attributable to AptarGroup, Inc.	$ 65,174	$ 59,048	$ 116,994	$ 102,911
Net Income Attributable to AptarGroup, Inc. per Common Share:				
Basic	$ 1.04	$ 0.94	$ 1.87	$ 1.64
Diluted	$ 1.01	$ 0.91	$ 1.81	$ 1.58
Average Number of Shares Outstanding:				
Basic	62,631	63,053	62,494	62,888
Diluted	64,828	64,785	64,519	65,063
Dividends per Common Share	$ 0.32	$ 0.30	$ 0.64	$ 0.60

See accompanying Unaudited Notes to Condensed Consolidated Financial Statements.

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AptarGroup, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

In thousands

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Net Income	$ 65,189	$ 59,051	$ 116,994	$ 102,917
Other Comprehensive Income:				
Foreign currency translation adjustments	28,416	(34,725)	51,602	30,447
Changes in treasury locks, net of tax	7	6	14	13
Defined benefit pension plan, net of tax				
Amortization of prior service cost included in net income, net of tax	69	59	136	116
Amortization of net loss included in net income, net of tax	827	782	1,639	1,558
Total defined benefit pension plan, net of tax	896	841	1,775	1,674
Total other comprehensive income (loss)	29,319	(33,878)	53,391	32,134
Comprehensive Income	94,508	25,173	170,385	135,051
Comprehensive (Income) Loss Attributable to Noncontrolling Interests	(20)	5	(7)	1
Comprehensive Income Attributable to AptarGroup, Inc.	$ 94,488	$ 25,178	$ 170,378	$ 135,052

See accompanying Unaudited Notes to Condensed Consolidated Financial Statements.

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AptarGroup, Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

In thousands

	June 30, 2017	December 31, 2016
Assets		
Current Assets:		
Cash and equivalents	$ 336,915	$ 466,287
Accounts and notes receivable, less allowance for doubtful accounts of $3,140 in 2017 and $2,989 in 2016	499,697	433,127
Inventories	320,082	296,914
Prepaid and other	87,775	73,842
	1,244,469	1,270,170
Property, Plant and Equipment:		
Buildings and improvements	392,940	368,260
Machinery and equipment	2,089,814	1,938,352
	2,482,754	2,306,612
Less: Accumulated depreciation	(1,676,064)	(1,545,384)
	806,690	761,228
Land	25,018	23,093
	831,708	784,321
Other Assets:		
Investments in affiliates	9,425	4,241
Goodwill	429,579	407,522
Intangible assets	95,454	94,489
Miscellaneous	53,229	46,042
	587,687	552,294
Total Assets	$ 2,663,864	$ 2,606,785

See accompanying Unaudited Notes to Condensed Consolidated Financial Statements.

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AptarGroup, Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

In thousands, except share and per share amounts

	June 30, 2017	December 31, 2016
Liabilities and Stockholders' Equity		
Current Liabilities:		
Notes payable	$ 2,299	$ 169,213
Current maturities of long-term obligations, net of unamortized debt issuance costs	5,590	4,603
Accounts payable and accrued liabilities	471,171	369,139
	479,060	542,955
Long-Term Obligations, net of unamortized debt issuance costs	770,648	772,737
Deferred Liabilities and Other:		
Deferred income taxes	16,828	16,803
Retirement and deferred compensation plans	82,789	94,545
Deferred and other non-current liabilities	5,363	5,503
Commitments and contingencies	—	—
	104,980	116,851
Stockholders' Equity:		
AptarGroup, Inc. stockholders' equity		
Common stock, $.01 par value, 199 million shares authorized, 66.5 and 66.0 million shares issued as of June 30, 2017 and December 31, 2016, respectively	665	660
Capital in excess of par value	594,145	546,682
Retained earnings	1,238,123	1,197,234
Accumulated other comprehensive (loss)	(266,325)	(319,709)
Less: Treasury stock at cost, 3.9 million shares as of June 30, 2017 and December 31, 2016	(257,731)	(250,917)
Total AptarGroup, Inc. Stockholders' Equity	1,308,877	1,173,950
Noncontrolling interests in subsidiaries	299	292
Total Stockholders' Equity	1,309,176	1,174,242
Total Liabilities and Stockholders' Equity	$ 2,663,864	$ 2,606,785

See accompanying Unaudited Notes to Condensed Consolidated Financial Statements.

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AptarGroup, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Unaudited)

In thousands

	AptarGroup, Inc. Stockholders' Equity						
	Retained Earnings	Accumulated Other Comprehensive (Loss) Income	Common Stock Par Value	Treasury Stock	Capital in Excess of Par Value	Non-Controlling Interest	Total Equity
Balance - December 31, 2015	$ 1,185,681	$ (262,347)	$ 667	$ (270,052)	$ 495,462	$ 295	$ 1,149,706
Net income	102,911	—	—	—	—	6	102,917
Foreign currency translation adjustments	—	30,454	—	—	—	(7)	30,447
Changes in unrecognized pension gains/losses and related amortization, net of tax	—	1,674	—	—	—	—	1,674
Changes in treasury locks, net of tax	—	13	—	—	—	—	13
Stock awards and option exercises	—	—	7	13,549	46,679	—	60,235
Cash dividends declared on common stock	(37,717)	—	—	—	—	—	(37,717)
Common stock repurchased and retired	(43,668)	—	(6)	—	(5,009)	—	(48,683)
	$ 1,207,207	$ (230,206)	$ 668	$ (256,503)	$ 537,132	$ 294	$ 1,258,592

Balance - June 30, 2016							
Balance - December 31, 2016	$ 1,197,234	$ (319,709)	$ 660	$ (250,917)	$ 546,682	$ 292	$ 1,174,242
Net income	116,994	—	—	—	—	—	116,994
Foreign currency translation adjustments	—	51,595	—	—	—	7	51,602
Changes in unrecognized pension gains/losses and related amortization, net of tax	—	1,775	—	—	—	—	1,775
Changes in treasury locks, net of tax	—	14	—	—	—	—	14
Stock awards and option exercises	—	—	10	19,914	52,279	—	72,203
Cash dividends declared on common stock	(39,932)	—	—	—	—	—	(39,932)
Treasury stock purchased	—	—	—	(26,728)	—	—	(26,728)
Common stock repurchased and retired	(36,173)	—	(5)	—	(4,816)	—	(40,994)
Balance - June 30, 2017	$ 1,238,123	$ (266,325)	$ 665	$ (257,731)	$ 594,145	$ 299	$ 1,309,176

See accompanying Unaudited Notes to Condensed Consolidated Financial Statements.

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AptarGroup, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

In thousands, brackets denote cash outflows

Six Months Ended June 30,	2017	2016
Cash Flows from Operating Activities:		
Net income	$ 116,994	$ 102,917
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	69,638	72,042
Amortization	4,935	4,235
Stock based compensation	11,719	14,405
Provision for doubtful accounts	49	245
Deferred income taxes	1,091	35
Defined benefit plan expense	8,547	8,423
Equity in results of affiliates	70	172
Changes in balance sheet items, excluding effects from foreign currency adjustments:		
Accounts and other receivables	(45,760)	(80,728)
Inventories	(5,971)	(16,757)
Prepaid and other current assets	(10,602)	(18,541)
Accounts payable and accrued liabilities	29,147	7,698
Income taxes payable	(2,150)	(683)
Retirement and deferred compensation plan liabilities	(22,331)	(15,141)
Other changes, net	(6,454)	5,894
Net Cash Provided by Operations	148,922	84,216
Cash Flows from Investing Activities:		
Capital expenditures	(66,705)	(56,942)
Proceeds from sale of property and equipment, including insurance proceeds	978	1,446
Maturity of short-term investments	—	29,485
Acquisition of business, net of cash acquired	—	(202,985)
Acquisition of intangible assets	—	(2,493)
Investment in unconsolidated affiliate	(5,000)	—
Notes receivable, net	396	324
Net Cash Used by Investing Activities	(70,331)	(231,165)
Cash Flows from Financing Activities:		
(Repayments of) proceeds from notes payable	(167,014)	59,330
Proceeds from long-term obligations	2,535	78
Repayments of long-term obligations	(4,727)	(2,343)
Dividends paid	(39,932)	(37,717)
Proceeds from stock option exercises	60,484	38,947
Purchase of treasury stock	(26,728)	—

Common stock repurchased and retired	(40,994)	(48,683)
Excess tax benefit from exercise of stock options	—	6,884
Net Cash (Used) Provided by Financing Activities	(216,376)	16,496
Effect of Exchange Rate Changes on Cash	8,413	2,216
Net Decrease in Cash and Equivalents	(129,372)	(128,237)
Cash and Equivalents at Beginning of Period	466,287	489,901
Cash and Equivalents at End of Period	$ 336,915	$ 361,664

See accompanying Unaudited Notes to Condensed Consolidated Financial Statements.

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AptarGroup, Inc.

Notes to Condensed Consolidated Financial Statements

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

(Unaudited)

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

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

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

ADOPTION OF RECENT ACCOUNTING PRONOUNCEMENTS

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

In May 2014, the FASB amended the guidance for recognition of revenue from customer contracts. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in the amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, the FASB decided to defer the effective date by one year to December 15, 2017 for annual reporting periods beginning after that date. The FASB also decided to allow early adoption of the standard, but not before the original effective date of December 15, 2016. Subsequent to the initial standards, the FASB has also issued several ASUs to clarify specific revenue recognition topics. We continue to evaluate the impact the adoption of this standard will have on our Consolidated Financial Statements. The majority of our revenues are derived from product sales and tooling sales. We are also evaluating our license, exclusivity and royalty arrangements, which need to be reviewed individually to ensure proper accounting under the new standard. To date, our internal project team has reviewed a substantial portion of contracts and we continue to work on quantifying the impact this adoption will have on our financial statements. We also continue to progress in reviewing and developing the additional disclosures required by the standard. We currently anticipate adopting the full retrospective transition method for implementing this guidance on the standard's effective date.

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

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

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In March 2016, the FASB issued guidance that changes the accounting for certain aspects of share-based payments to employees. The guidance requires the recognition of the income tax effects of awards in the income statement when the awards vest or are settled, thus eliminating additional paid in capital pools. The guidance also allows for the employer to repurchase more of an employee's shares for tax withholding purposes without triggering liability accounting. In addition, the guidance allows for a policy election to account for forfeitures as they occur rather than on an estimated basis. The new standard is effective for fiscal years and interim periods beginning after December 15, 2016. The Company has prospectively adopted the standard resulting in $5.6 million and $8.3 million of additional tax deductions that would have been previously recorded in stockholders' equity now being reported as a reduction in tax expense for the three and six months ended June 30, 2017, respectively. The amount of excess tax benefits and deficiencies recognized in the provision for income taxes will fluctuate from period to period based on the price of the Company's stock, the volume of share-based instruments settled or vested, and the value assigned to share-based instruments under U.S. GAAP. We have also prospectively adopted the standard for the presentation of the condensed consolidated statements of cash flows. The impact of excess tax benefits from exercise of stock options is now shown within cash flows from operating activities instead of cash flows from financing activities. In addition, the Company has elected to continue its current practice of estimating expected forfeitures.

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

RETIREMENT OF COMMON STOCK

During the first six months of 2017, the Company repurchased 822 thousand shares of common stock, of which 512 thousand shares were immediately retired. During the first six months of 2016, the Company repurchased and immediately retired 636 thousand shares of common stock. Common stock was reduced by the number of shares retired at $0.01 par value per share. The excess of purchase price over par value may be charged entirely to retained earnings or may be allocated between additional paid-in capital and retained earnings. The Company has elected to allocate the excess purchase price over par value between additional paid-in capital and retained earnings.

INCOME TAXES

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

In making the determination of which foreign earnings are permanently reinvested in foreign operations, the Company considers numerous factors, including the financial requirements of the U.S. parent company and those of our foreign subsidiaries, the U.S. funding needs for dividend payments and stock repurchases, and the tax consequences of remitting earnings to the U.S. From this analysis, current year repatriation decisions are made in an attempt to provide a proper mix of debt and stockholder capital both within the U.S. and for non-U.S. operations. During 2016, the Company decided to repatriate a portion of our 2016 and 2017 foreign earnings. In the first quarter of 2017, the Company repatriated $263 million, most of which was used to reduce existing debt levels and fund stock repurchases. To better balance our capital structure, the Company repatriated an additional €700 million of foreign earnings in July 2017 (see Note 17 – Subsequent Events). The Company has recognized a $3 million tax benefit in the current period associated with these repatriation activities. The Company maintains its assertion that the approximately $594 million of remaining foreign earnings are permanently reinvested. As such, the Company does not provide for taxes on these earnings.

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

REVISION OF PRIOR PERIOD FINANCIAL STATEMENTS

During the second quarter of 2017, the Company determined that the impact of restricted stock unit (RSU) vesting was incorrectly presented in the Condensed Consolidated Statement of Cash Flows for the six months ended June 30, 2016. The effect of correcting this error results in a reduction to Net Cash Provided by Operations with a corresponding increase to Net Cash (Used) Provided by Financing Activities. As this error represents a reclassification between two accounts within the Condensed Consolidated Statement of Cash Flows, the Condensed Consolidated Statements of Income, the Condensed Consolidated Balance Sheet and the Condensed Consolidated Statements of Changes in Equity are not impacted by this change. The Company determined the error is not material to previously issued financial statements but was significant enough to revise. Following is a summary of the previously issued financial statement line items impacted by this revision for all periods and statements included in this report:

	As Previously Reported	Adjustment	As Revised
Revised Consolidated Statements of Cash Flows			
Six Months Ended June 30, 2016			
Retirement and deferred compensation plan liabilities	$ (13,296)	$ (1,845)	$ (15,141)
Net Cash Provided by Operations	86,061	(1,845)	84,216
Proceeds from stock option exercises	37,102	1,845	38,947
Net Cash (Used) Provided by Financing Activities	14,651	1,845	16,496

NOTE 2 - INVENTORIES

Inventories, by component, consisted of:

	June 30, 2017	December 31, 2016
Raw materials	$ 103,302	$ 98,014
Work in process	99,430	91,646
Finished goods	117,350	107,254

Total	$ 320,082	$ 296,914

NOTE 3 – GOODWILL AND OTHER INTANGIBLE ASSETS

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

	Beauty + Home	Pharma	Food + Beverage	Corporate & Other	Total
Goodwill	$ 211,371	$ 180,050	$ 16,101	$ 1,615	$ 409,137
Accumulated impairment losses	—	—	—	(1,615)	(1,615)
Balance as of December 31, 2016	$ 211,371	$ 180,050	$ 16,101	$ —	$ 407,522
Foreign currency exchange effects	7,682	13,898	477	—	22,057
Goodwill	$ 219,053	$ 193,948	$ 16,578	$ 1,615	$ 431,194
Accumulated impairment losses	—	—	—	(1,615)	(1,615)
Balance as of June 30, 2017	$ 219,053	$ 193,948	$ 16,578	$ —	$ 429,579

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

	June 30, 2017			December 31, 2016		
Weighted Average Amortization Period	Gross Carrying	Accumulated	Net	Gross Carrying	Accumulated	Net

	(Years)	Amount	Amortization	Value	Amount	Amortization	Value
Amortized intangible assets:							
Patents	0.2	$ 7,436	$ (7,419)	$ 17	$ 6,859	$ (6,839)	$ 20
Acquired technology	14.9	45,244	(12,397)	32,847	41,731	(10,040)	31,691
Customer relationships	11.8	66,543	(10,021)	56,522	63,006	(6,696)	56,310
License agreements and other	7.8	19,391	(13,322)	6,069	18,516	(12,048)	6,468
Total intangible assets	11.7	$ 138,614	$ (43,160)	$ 95,454	$ 130,112	$ (35,623)	$ 94,489

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Aggregate amortization expense for the intangible assets above for the quarters ended June 30, 2017 and 2016 was $2,506 and $2,749, respectively. Aggregate amortization expense for the intangible assets above for the six months ended June 30, 2017 and 2016 was $4,935 and $4,235, respectively.

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

2017	$ 5,123	(remaining estimated amortization for 2017)
2018	10,287	
2019	10,109	
2020	8,938	
2021 and thereafter	60,997	

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, 2017.

NOTE 4 — INCOME TAXES

The reported effective tax rate decreased to 18.1% for the three months ended June 30, 2017 compared to 30.0% for the same period ended June 30, 2016, resulting in a decrease to the Provision for Income Taxes of approximately $11 million. The reported effective tax rate also decreased to 21.5% for the six months ended June 30, 2017 compared to 28.6% for the six months ended June 30, 2016, resulting in a decrease to the Provision for Income Taxes of approximately $9 million. The decrease is due primarily to two factors - a benefit of 7% received from the new accounting standard for employee share-based payments, which the Company adopted in 2017, and an additional 4% reduction in connection with our repatriation activities, which was primarily related to tax benefits associated with the forward contract discussed in Note 8. For the six months ended June 30, 2017, the rate also benefitted from the new accounting standard for employee share-based payments as well as from tax benefits due to repatriation activities.

The Company had approximately $6.9 and $6.4 million recorded for income tax uncertainties as of June 30, 2017 and December 31, 2016, respectively. The increase is attributable to changes in existing tax positions as well as currency fluctuations. The uncertain amounts, if recognized, that would impact the effective tax rate are $6.9 and $6.4 million, respectively. The Company estimates that it is reasonably possible that the liability for uncertain tax positions will decrease by no more than $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 5 – LONG –TERM OBLIGATIONS

At June 30, 2017, the Company’s long-term obligations consisted of the following:

	Principal	Unamortized Debt Issuance Costs	Net
Notes payable 0.61% – 16.00%, due in monthly and annual installments through 2025	$ 17,454	$ —	$ 17,454
Senior unsecured notes 6.0%, due in 2018	75,000	24	74,976
Senior unsecured notes 3.8%, due in 2020	84,000	105	83,895
Senior unsecured notes 3.2%, due in 2022	75,000	126	74,874
Senior unsecured notes 3.5%, due in 2023	125,000	238	124,762
Senior unsecured notes 3.4%, due in 2024	50,000	97	49,903
Senior unsecured notes 3.5%, due in 2024	100,000	238	99,762
Senior unsecured notes 3.6%, due in 2025	125,000	254	124,746
Senior unsecured notes 3.6%, due in 2026	125,000	254	124,746
Capital lease obligations	1,119	—	1,119
	$ 777,573	$ 1,335	$ 776,238
Current maturities of long-term obligations	(5,590)	—	(5,590)
Total long-term obligations	$ 771,983	$ 1,335	$ 770,648

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

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

Aggregate long-term maturities, excluding capital lease obligations, due annually from the current balance sheet date for the next five years are $5,116, $79,672, $2,348, $85,846 and $1,848 and $601,624 thereafter.

NOTE 6 — RETIREMENT AND DEFERRED COMPENSATION PLANS

Components of Net Periodic Benefit Cost:

	Domestic Plans		Foreign Plans	
Three Months Ended June 30,	2017	2016	2017	2016
Service cost	$ 2,433	$ 2,260	$ 1,382	$ 1,163
Interest cost	1,757	1,694	438	482
Expected return on plan assets	(2,475)	(2,117)	(586)	(556)

Amortization of net loss	801	821	460	393
Amortization of prior service cost	—	—	98	89
Net periodic benefit cost	$ 2,516	$ 2,658	$ 1,792	$ 1,571

	Domestic Plans		Foreign Plans	
Six Months Ended June 30,	2017	2016	2017	2016
Service cost	$ 4,853	$ 4,520	$ 2,719	$ 2,301
Interest cost	3,505	3,388	862	955
Expected return on plan assets	(4,939)	(4,235)	(1,154)	(1,101)
Amortization of net loss	1,602	1,642	907	777
Amortization of prior service cost	—	—	192	176
Net periodic benefit cost	$ 5,021	$ 5,315	$ 3,526	$ 3,108

EMPLOYER CONTRIBUTIONS

Although the Company has no minimum funding requirement, we expect to contribute approximately $24.0 million to our domestic defined benefit plans in 2017. During the first quarter of 2017, we contributed $20.0 million to these plans. We expect to contribute approximately $2.5 million to our foreign defined benefit plans in 2017, and as of June 30, 2017, we have contributed approximately $1.5 million.

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NOTE 7— ACCUMULATED OTHER COMPREHENSIVE INCOME

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

	Foreign Currency	Defined Benefit Pension Plans	Other	Total
Balance - December 31, 2015	$ (206,725)	$ (55,550)	$ (72)	$ (262,347)
Other comprehensive income before reclassifications	30,454	—	—	30,454
Amounts reclassified from accumulated other comprehensive income	—	1,674	13	1,687
Net current-period other comprehensive income	30,454	1,674	13	32,141
Balance - June 30, 2016	$ (176,271)	$ (53,876)	$ (59)	$ (230,206)
Balance - December 31, 2016	$ (259,888)	$ (59,775)	$ (46)	$ (319,709)
Other comprehensive income before reclassifications	51,595	—	—	51,595
Amounts reclassified from accumulated other comprehensive income	—	1,775	14	1,789
Net current-period other comprehensive income	51,595	1,775	14	53,384
Balance - June 30, 2017	$ (208,293)	$ (58,000)	$ (32)	$ (266,325)

Reclassifications Out of Accumulated Other Comprehensive (Loss) Income:

Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line in the Statement Where Net Income is Presented
Three Months Ended June 30,	2017	2016	
Defined Benefit Pension Plans			
Amortization of net loss	$ 1,261	$ 1,214	(a)
Amortization of prior service cost	98	89	(a)
	1,359	1,303	Total before tax
	(463)	(462)	Tax benefit
	$ 896	$ 841	Net of tax
Other			
Changes in treasury locks	$ 11	$ 10	Interest Expense
	11	10	Total before tax
	(4)	(4)	Tax benefit
	$ 7	$ 6	Net of tax

Total reclassifications for the period	$ 903	$ 847

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

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Details about Accumulated Other Comprehensive Income Components	Amount Reclassified from Accumulated Other Comprehensive Income		Affected Line in the Statement Where Net Income is Presented
Six Months Ended June 30,	2017	2016	
Defined Benefit Pension Plans			
Amortization of net loss	$ 2,509	$ 2,419	(b)
Amortization of prior service cost	192	176	(b)
	2,701	2,595	Total before tax
	(926)	(921)	Tax benefit
	$ 1,775	$ 1,674	Net of tax
Other			
Changes in treasury locks	$ 21	$ 20	Interest Expense
	21	20	Total before tax
	(7)	(7)	Tax benefit
	$ 14	$ 13	Net of tax
Total reclassifications for the period	$ 1,789	$ 1,687	

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

NOTE 8 — DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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

For derivative instruments designated as hedges, the Company formally documents the nature and relationships between the hedging instruments and the hedged items, as well as the risk management objectives, strategies for undertaking the various hedge transactions, and the method of assessing hedge effectiveness. 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 subsidiaries. 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 our foreign subsidiaries where the Company's net investment is likely to be monetized, the Company will consider hedging the currency exposure associated with such a transaction.

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OTHER

As of June 30, 2017, the Company has recorded the fair value of foreign currency forward exchange contracts of $0.7 million in prepaid and other and $51.3 million in accounts payable and accrued liabilities in the balance sheet. All forward exchange contracts outstanding as of June 30, 2017 had an aggregate contract amount of $850.4 million.

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

Derivative Contracts Not Designated as Hedging Instruments	Balance Sheet Location	June 30, 2017	December 31, 2016
Derivative Assets			
Foreign Exchange Contracts	Prepaid and other	$ 748	$ 1,612
		$ 748	$ 1,612
Derivative Liabilities			
Foreign Exchange Contracts	Accounts payable and accrued liabilities	$ 51,295	$ 2,881
		$ 51,295	$ 2,881

The Effect of Derivative Instruments on the Condensed Consolidated Statements of Income for the Quarters Ended June 30, 2017 and June 30, 2016

Derivatives Not Designated as Hedging Instruments	Location of (Loss) Gain Recognized in Income on Derivatives	Amount of (Loss) Gain Recognized in Income on Derivatives	
		2017	2016
Foreign Exchange Contracts	Other (Expense) Income: Miscellaneous, net	$ (49,762)	$ (2,660)
		$ (49,762)	$ (2,660)

The Effect of Derivative Instruments on the Condensed Consolidated Statements of Income for the Six Months Ended June 30, 2017 and June 30, 2016

Derivatives Not Designated as Hedging Instruments	Location of (Loss) Gain Recognized in Income on Derivatives	Amount of (Loss) Gain Recognized in Income on Derivatives	
		2017	2016
Foreign Exchange Contracts	Other (Expense) Income: Miscellaneous, net	$ (49,117)	$ (5,066)
		$ (49,117)	$ (5,066)

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Description	Gross Amount	Gross Amounts Offset in the Statement of Financial Position	Net Amounts Presented in the Statement of Financial Position	Gross Amounts not Offset in the Statement of Financial Position: Financial Instruments	Gross Amounts not Offset in the Statement of Financial Position: Cash Collateral Received	Net Amount
June 30, 2017						
Derivative Assets	$ 748	—	$ 748	—	—	$ 748
Total Assets	$ 748	—	$ 748	—	—	$ 748
Derivative Liabilities	$ 51,295	—	$ 51,295	—	—	$ 51,295
Total Liabilities	$ 51,295	—	$ 51,295	—	—	$ 51,295
December 31, 2016						
Derivative Assets	$ 1,612	—	$ 1,612	—	—	$ 1,612
Total Assets	$ 1,612	—	$ 1,612	—	—	$ 1,612
Derivative Liabilities	$ 2,881	—	$ 2,881	—	—	$ 2,881
Total Liabilities	$ 2,881	—	$ 2,881	—	—	$ 2,881

As part of our repatriation activities (see Note 17 – Subsequent Events), we have a €700 million intercompany accounts receivable balance on a U.S. Dollars functional subsidiary. The Company executed foreign currency forward contracts to sell Euros and receive U.S. Dollar in order to mitigate this exchange rate risk. The mark-to-market of these forward contracts had a $49.1 million impact on accounts payable and other accrued liabilities as of June 30, 2017 along with other (expense) income miscellaneous, net for the three and six months ended June 30, 2017. This impact was offset by the revaluation of the €700 million intercompany accounts receivable balance that had an equivalent gain during the same period.

NOTE 9 — FAIR VALUE

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

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

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

	Total	Level 1	Level 2	Level 3
Assets				
Forward exchange contracts (a)	$ 748	$ —	$ 748	$ —
Total assets at fair value	$ 748	$ —	$ 748	$ —
Liabilities				
Forward exchange contracts (a)	$ 51,295	$ —	$ 51,295	$ —
Total liabilities at fair value	$ 51,295	$ —	$ 51,295	$ —

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

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

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

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The carrying amounts of the Company's other current financial instruments such as cash and equivalents, accounts and notes receivable, notes payable and current maturities of long-term obligations approximate fair value due to the short-term maturity of the instruments. The Company considers our long-term obligations a Level 2 liability and utilizes the market approach valuation technique based on interest rates that are currently available to the Company for issuance of debt with similar terms and maturities. The estimated fair value of the Company's long-term obligations was $749 million as of June 30, 2017 and $739 million as of December 31, 2016.

NOTE 10 - COMMITMENTS AND CONTINGENCIES

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

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

An environmental investigation, undertaken to assess areas of possible contamination, was completed at the Company's facility in Jundiaí, São Paulo, Brazil. The facility is primarily an internal supplier of anodized aluminum components for certain of our dispensing systems. The testing indicated that soil and groundwater in certain areas of the facility were impacted above acceptable levels established by local regulations. In March 2017, the Company reported the findings to the relevant environmental authority, the Environmental Company of the State of São Paulo – CETESB. The Company is in the preliminary stages of further assessing the affected areas to determine the full extent of the impact and the scope of any required remediation. Initial costs for further investigation and possible remediation, based on assumptions about the area of impact and customary remediation costs, are estimated to be in the range of $1.5 million to $3.0 million. The range of possible loss associated with this environmental contingency is subject to considerable uncertainty due to the incomplete status of the investigation and preliminary nature of our discussions with CETESB. We will continue to evaluate the range of likely costs as the investigation proceeds and we have further clarity on the nature and extent of remediation that will be required. We note that the contamination, or any failure on the part of the Company to complete its remediation in a timely manner, could potentially result in fines or penalties levied on the Company. The Company accrued a $1.5 million operating expense in the first quarter of 2017 relating to this contingency. The amount is periodically reviewed, and adjusted as necessary, as the matter continues to evolve. Based on the current status of the investigation, no adjustment to the accrual was necessary for the quarter ended June 30, 2017.

NOTE 11 — STOCK REPURCHASE PROGRAM

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

During the three and six months ended June 30, 2017, the Company repurchased approximately 613 thousand and 822 thousand shares for approximately $51.7 million and $67.7 million, respectively. During the three and six months ended June 30, 2016, the Company repurchased approximately 523 thousand and 636 thousand shares for approximately $40.1 million and $48.7 million, respectively. As of June 30, 2017, there was $235.7 million of authorized share repurchases available to the Company.

NOTE 12 — STOCK-BASED COMPENSATION

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

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Compensation expense attributable to employee stock options for the first six months of 2017 was approximately $9.9 million ($6.7 million after tax). The income tax benefit related to this compensation expense was approximately $3.2 million. Approximately $8.7 million of the compensation expense was recorded in selling, research & development and administrative expenses and the balance was recorded in cost of sales. Compensation expense attributable to stock options for the first six months of 2016 was approximately $12.7 million ($8.5 million after tax). The income tax benefit related to this compensation expense was approximately $4.2 million. Approximately $11.2 million of the compensation expense was recorded in selling, research & development and administrative expenses and the balance was recorded in cost of sales.

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

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

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

	Stock Awards Plans		Director Stock Option Plans	
	Options	Weighted Average Exercise Price	Options	Weighted Average Exercise Price
Outstanding, January 1, 2017	8,070,444	$ 56.36	281,334	$ 56.45
Granted	1,622,082	74.90	—	—
Exercised	(1,229,978)	46.02	(64,667)	53.21
Forfeited or expired	(77,362)	70.98	—	—
Outstanding at June 30, 2017	8,385,186	$ 61.33	216,667	$ 57.41
Exercisable at June 30, 2017	5,421,004	$ 55.39	216,667	$ 57.41
Weighted-Average Remaining Contractual Term (Years):				

Outstanding at June 30, 2017	6.6	5.5
Exercisable at June 30, 2017	5.4	5.5
Aggregate Intrinsic Value:		
Outstanding at June 30, 2017	$ 209,954	$ 6,274
Exercisable at June 30, 2017	$ 167,929	$ 6,274
Intrinsic Value of Options Exercised		
During the Six Months Ended:		
June 30, 2017	$ 41,030	$ 3,441
June 30, 2016	$ 31,595	$ 536

The fair value of options vested during the six months ended June 30, 2017 and 2016 was $16.9 million. Cash received from option exercises was approximately $60.5 million and the actual tax benefit realized for the tax deduction from option exercises was approximately $14.2 million in the six months ended June 30, 2017. As of June 30, 2017, the remaining valuation of stock option awards to be expensed in future periods was $19.6 million and the related weighted-average period over which it is expected to be recognized is 2.4 years.

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

	Stock Awards Plans		Director Restricted Stock Unit Plan	
	RSUs	Weighted Average Grant-Date Fair Value	RSUs	Weighted Average Grant-Date Fair Value
Nonvested at January 1, 2017	72,127	$ 69.31	15,745	$ 75.56
Granted	78,276	73.29	14,793	80.45
Vested	(40,963)	68.29	(15,745)	75.56
Nonvested at June 30, 2017	109,440	$ 72.54	14,793	$ 80.45

Compensation expense recorded attributable to RSUs for the first six months of 2017 and 2016 was approximately $1.8 million and $1.7 million, respectively. The fair value of units vested during the six months ended June 30, 2017 and 2016 was $4.0 million and $1.8 million, respectively. The intrinsic value of units vested during the six months ended June 30, 2017 and 2016 was $4.3 million and $2.2 million, respectively. As of June 30, 2017, there was $5.8 million of total unrecognized compensation cost relating to RSU awards which is expected to be recognized over a weighted-average period of 2.1 years.

The Company has a long-term incentive program for certain employees. Each award is based on the cumulative total shareholder return of our common stock during a three year performance period compared to a peer group. The total expected expense related to this program for awards outstanding as of June 30, 2017 is approximately $4.4 million, of which $1.5 million and $1.9 million was recognized in the first six months of 2017 and 2016, respectively.

NOTE 13 — EARNINGS PER SHARE

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

	Three Months Ended			
	June 30, 2017		June 30, 2016	
	Diluted	Basic	Diluted	Basic
Consolidated operations				
Income available to common shareholders	$ 65,174	$ 65,174	$ 59,048	$ 59,048
Average equivalent shares				
Shares of common stock	62,631	62,631	63,053	63,053
Effect of dilutive stock based compensation				
Stock options	2,144	—	1,693	—
Restricted stock	53	—	39	—
Total average equivalent shares	64,828	62,631	64,785	63,053
Net income per share	$ 1.01	$ 1.04	$ 0.91	$ 0.94

	Six Months Ended			
	June 30, 2017		June 30, 2016	
	Diluted	Basic	Diluted	Basic
Consolidated operations				
Income available to common stockholders	$ 116,994	$ 116,994	$ 102,911	$ 102,911
Average equivalent shares				
Shares of common stock	62,494	62,494	62,888	62,888
Effect of dilutive stock based compensation				
Stock options	1,973	—	2,128	—
Restricted stock	52	—	47	—
Total average equivalent shares	64,519	62,494	65,063	62,888
Net income per share	$ 1.81	$ 1.87	$ 1.58	$ 1.64

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NOTE 14 — SEGMENT INFORMATION

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Total Sales:				
Beauty + Home	$ 327,475	$ 345,894	$ 654,408	$ 664,764
Pharma	201,703	191,038	398,617	374,173
Food + Beverage	94,958	89,087	177,307	174,483
Total Sales	624,136	626,019	1,230,332	1,213,420
Less: Intersegment Sales:				
Beauty + Home	$ 5,358	$ 5,573	$ 9,843	$ 10,107
Pharma	1	4	3	4
Food + Beverage	1,031	443	1,424	972
Total Intersegment Sales	$ 6,390	$ 6,020	$ 11,270	$ 11,083
Net Sales:				
Beauty + Home	$ 322,117	$ 340,321	$ 644,565	$ 654,657
Pharma	201,702	191,034	398,614	374,169
Food + Beverage	93,927	88,644	175,883	173,511
Net Sales	$ 617,746	$ 619,999	$ 1,219,062	$ 1,202,337
Segment Income (1):				
Beauty + Home	$ 25,203	$ 30,547	$ 47,411	$ 54,075
Pharma	59,792	58,597	118,862	111,833
Food + Beverage	12,577	13,593	19,717	22,876
Corporate & Other	(10,935)	(9,636)	(21,941)	(27,831)
Interest Expense	(7,712)	(9,203)	(15,974)	(17,794)
Interest Income	643	460	973	1,044
Income before Income Taxes	$ 79,568	$ 84,358	$ 149,048	$ 144,203

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

Note 15 – INSURANCE SETTLEMENT RECEIVABLE

A fire caused damage to Aptar's facility in Annecy, France in June 2016. The fire was contained to one of three production units and there were no reported injuries. Aptar Annecy supplies anodized aluminum components for certain Aptar dispensing systems. While repairs are underway, Aptar will source from its network of suppliers as well as from its anodizing facility in Brazil. The Company is insured for the damages caused by the fire, including business interruption insurance, and it does not expect this incident to have a material impact on its financial results. Losses related to the fire of $5.0 million and $9.9 million were incurred during the three and six months ended June 30, 2017, respectively. For the six months ended June 30, 2017, we have received insurance proceeds of $12.0 million. As our cash receipts are in excess of costs incurred, we currently have a prepayment of $4.0 million at June 30, 2017, which is included in Accounts Payable and Accrued Liabilities in the Condensed Consolidated Balance Sheet. In many cases, our insurance coverage exceeds the amount of these recognized losses. No gain contingencies have been recognized as our ability to realize those gains remains uncertain. Profitability was negatively impacted by $1.4 million and $2.7 million related to the Annecy fire during the three and six months ended June 30, 2017, respectively. These costs are included in the Beauty + Home segment.

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NOTE 16 – ACQUISITIONS

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

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

	February 29, 2016
Assets	
Cash and equivalents	$ 20,197
Accounts receivable	8,275
Inventories	8,373
Prepaid and other	378
Property, plant and equipment	47,768
Goodwill	105,561
Intangible assets	72,106
Other miscellaneous assets	8
Liabilities	
Current maturities of long-term obligations	319
Accounts payable and accrued liabilities	7,398
Long-term obligations	13,402
Deferred income taxes	18,366
Net assets acquired	$ 223,181

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

	Weighted-Average Useful Life (in years)	Estimated Fair Value of Asset
Customer relationships	11	$ 57,120
Technology	15	10,838
Trademark	4	4,148
Total		$ 72,106

Goodwill in the amount of $105.6 million was recorded for the acquisition of Mega Airless, of which $49.8 million and $55.8 million is included in the Beauty + Home and Pharma segments, respectively. 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 Mega Airless line of products in markets where Mega Airless did not previously operate and the ability of Mega Airless to maintain its competitive advantage from a technical viewpoint. Goodwill will not be amortized, but will be tested for impairment at least annually. We do not expect any of the goodwill will be deductible for tax purposes.

The unaudited pro forma results presented below include the effects of the Mega Airless acquisition as if it had occurred as of January 1, 2015. 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 2016 pro forma earnings were adjusted to exclude $4.2 million after tax ($5.6 million pretax) of transaction costs, including consulting, legal and advisory fees. The 2016 pro forma earnings were also adjusted to exclude $1.8 million after tax ($2.6 million pretax) of nonrecurring expense related to the fair value adjustment to acquisition-date inventory.

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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 date indicated.

	Three Months Ended June 30, 2016	Six Months Ended June 30, 2016
Net Sales	$ 619,999	$ 1,211,897
Net Income Attributable to AptarGroup Inc.	59,412	109,598
Net Income per common share — basic	0.94	1.74
Net Income per common share — diluted	0.92	1.68

In February 2017, the Company acquired a 20% minority investment in Kali Care, Inc. for $5.0 million. Kali Care, Inc. (“Kali Care”) is a Silicon Valley-based technology company, which provides digital monitoring systems for ophthalmic medication. Kali Care’s sensing technology allows clinicians to collect real time compliance data and is a powerful tool for ophthalmologists in managing the care of their patients and represents an additional investment into connected devices for our Pharma applications. This investment is being accounted for under the equity method of accounting from the date of acquisition.

NOTE 17 – SUBSEQUENT EVENTS

As part of the ongoing analysis of our funding needs and to better balance our capital structure, the Company entered into the borrowing arrangements summarized below through our wholly owned UK subsidiary between July 19, 2017 and July 20, 2017 and repatriated €700 million of foreign earnings on July 27, 2017. The funds were repatriated from our European earnings.

Debt type	Amount	Term/Maturity	Interest rate
Bank term loan	$280 million	5 year amortizing/July 2022	2.56% floating
Bank revolver	€150 million	5 year/July 2022	1.25% floating
Private placement	€100 million	6 year/July 2023	0.98% fixed
Private placement	€200 million	7 year/July 2024	1.17% fixed

On July 20, 2017, our wholly owned UK subsidiary drew €150 million in revolving loan borrowings and $280 million in term loan borrowings under our credit facility. In order to mitigate the currency risk of U.S. dollar debt on a Euro functional currency entity and to mitigate the risk of variability in interest rates, Aptar also entered into a EUR/USD floating-to-fixed cross currency swap on July 20, 2017 to effectively hedge the foreign exchange and interest rate exposure on the $280 million bank term loan.

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

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

RESULTS OF OPERATIONS

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017		2016		2017		2016	
Net sales	100.0	%	100.0	%	100.0	%	100.0	%
Cost of sales (exclusive of depreciation and amortization shown below)	64.7		62.9		64.4		63.5	
Selling, research & development and administrative	15.5		15.5		16.2		16.6	
Depreciation and amortization	6.0		6.5		6.1		6.3	
Operating income	13.8		15.1		13.3		13.6	
Other expense	(0.9)		(1.5)		(1.1)		(1.6)	
Income before income taxes	12.9		13.6		12.2		12.0	
Net Income	10.6		9.5		9.6		8.6	
Effective tax rate	18.1	%	30.0	%	21.5	%	28.6	%
Adjusted EBITDA margin (1)	20.1	%	21.5	%	19.6	%	20.4	%

(1) Adjusted EBITDA margins are calculated as Adjusted EBITDA divided by Reported Net Sales. See the reconciliation of Non-U.S. GAAP measures starting on page 28.

NET SALES

We reported net sales of $617.7 million for the quarter ended June 30, 2017, which is comparable to the $620.0 million reported during the second quarter of 2016. The average U.S. dollar exchange rate strengthened compared to the Euro while the impact of several other major currencies on our business was mixed. This resulted in a negative currency translation impact of 1%. Therefore, core sales, which exclude changes in foreign currency rates, increased 1% in the second quarter of 2017 compared to the second quarter of 2016. Significant product sales growth in our Pharma and Food + Beverage segments was mostly offset by softness in our Beauty + Home segment. Tooling sales did not have a significant impact on our results for the second quarter of 2017 compared to the prior year.

Second Quarter 2017 Net Sales Change over Prior Year	Beauty + Home	Pharma	Food + Beverage	Total
Core Sales Growth	(4)%	8%	7%	1%
Currency Effects (1)	(1)%	(2)%	(1)%	(1)%
Total Reported Net Sales Growth	(5)%	6%	6%	—%

(1) Currency effects are approximated by translating last year's amounts at this year's foreign exchange rates.

For the first six months of 2017, we reported net sales of $1.22 billion, 1% above the first six months of 2016 reported net sales of $1.20 billion. The average U.S. dollar exchange rate strengthened compared to the Euro while the impact of several other major currencies on our business was mixed. This resulted in a negative currency translation impact of 2%. The acquisition of Mega Airless positively impacted sales by 1%. Therefore, core sales for the first six months of 2017 increased by 2% compared to the first six months of 2016. Core sales were positively impacted by higher tooling sales of $10.9 million for the first six months of 2017 compared to the prior year.

First Six Months of 2017 Net Sales Change over Prior Year	Beauty + Home	Pharma	Food + Beverage	Total
Core Sales Growth	(2)%	9%	3%	2%
Acquisitions	1%	—%	—%	1%
Currency Effects (1)	(1)%	(2)%	(2)%	(2)%
Total Reported Net Sales Growth	(2)%	7%	1%	1%

(1) Currency effects are approximated by translating last year's amounts at this year's foreign exchange rates.

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

	Three Months Ended June 30,				Six Months Ended June 30,			
	2017	% of Total	2016	% of Total	2017	% of Total	2016	% of Total
Domestic	$ 161,309	26%	$ 160,860	26%	$ 320,639	26%	$ 322,255	27%
Europe	356,713	58%	353,856	57%	707,210	58%	683,823	57%
Latin America	57,804	9%	58,345	9%	111,408	9%	106,237	9%
Asia	41,920	7%	46,938	8%	79,805	7%	90,022	7%

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

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

Our cost of sales ("COS") as a percent of net sales increased to 64.7% in the second quarter of 2017 compared to 62.9% in the second quarter of 2016. Our COS percentage was negatively impacted by approximately $2.8 million due to the higher resin costs. It is expected that we will recover this higher cost through the pass-through of increasing resin prices to our customers. We also experienced cost increases in other materials during the second quarter of 2017 when compared to the second quarter of 2016. Some operational inefficiencies in our custom decorative packaging business in Europe also had a negative impact on our COS percentage during the second quarter of 2017 compared to the same period in 2016.

Cost of sales as a percent of net sales increased to 64.4% in the first six months of 2017 compared to 63.5% in the same period a year ago. As mentioned above, our COS percentage was negatively impacted by approximately $3.7 million due to the timing delay of resin pass-through of increasing resin prices to our customers, along with increases in other material costs and some operational inefficiencies in Europe during the first six months of 2017 compared to the first six months of 2016. The 2016 COS percentage was negatively impacted by $2.6 million of purchase accounting adjustments related to inventory acquired in our Mega Airless acquisition.

SELLING, RESEARCH & DEVELOPMENT AND ADMINISTRATIVE

Our Selling, Research & Development and Administrative expenses (“SG&A”) decreased by approximately $0.5 million in the second quarter of 2017 compared to the same period a year ago. Excluding changes in foreign currency rates, SG&A increased by approximately $1.0 million in the quarter. The majority of this increase is due to $0.7 million of higher incentive compensation costs related to the improvement in our share price compared to our peer group during the second quarter of 2017. Cost containment activities were able to offset the majority of other inflationary increases. Due to relatively stable sales and SG&A costs, SG&A as a percentage of net sales remained at 15.5% for both the second quarters of 2017 and 2016.

SG&A decreased by almost $2.0 million to $197.2 million in the first six months of 2017 compared to $199.1 million during the same period a year ago. Excluding changes in foreign currency rates, SG&A increased by approximately $0.9 million in the first six months of 2017 compared to the first six months of 2016. In 2016, we recognized one-time transaction costs of $5.6 million related to the Mega Airless acquisition which did not repeat in 2017. This decrease was offset by $0.9 million of professional fees related to our acquisition of a minority investment in Kali Care, Inc. and $1.5 million of incremental operating costs related to the two additional months of Mega Airless activity in 2017. We also recognized $1.5 million for the estimated costs to remediate environmental contamination found at the Company’s facility in Brazil. Due to higher sales, SG&A as a percentage of net sales decreased to 16.2% compared to 16.6% in the same period of the prior year.

DEPRECIATION AND AMORTIZATION

Reported depreciation and amortization expenses decreased by approximately $3.1 million in the second quarter of 2017 compared to the same period a year ago. Excluding changes in foreign currency rates, depreciation and amortization decreased by approximately $2.5 million in the quarter compared to the same period a year ago. This decrease is due to several large investments becoming fully depreciated during 2017. Due to this decrease in recognized expense, depreciation and amortization as a percentage of net sales decreased to 6.0% in the second quarter of 2017 compared to 6.5% in the same period of the prior year.

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For the first six months of 2017, reported depreciation and amortization expenses decreased by approximately $1.7 million compared to the first six months of 2016. Excluding changes in foreign currency rates, depreciation and amortization decreased by approximately $0.5 million compared to the same period a year ago. Incremental depreciation and amortization costs of $2.6 million related to the two additional months of Mega Airless activity in 2017 was offset by the several large investments becoming fully depreciated, as discussed above. As depreciation and amortization expenses decreased due to the lapsing of these large investments, depreciation and amortization as a percentage of net sales decreased to 6.1% compared to 6.3% in the first six months of 2017 compared to the same period of the prior year.

OPERATING INCOME

Operating income decreased approximately $8.7 million in the second quarter of 2017 compared to the same period a year ago. Excluding changes in foreign currency rates, operating income decreased by approximately $7.1 million in the quarter compared to the same period a year ago. This decrease is mainly due to softness in sales from our Beauty + Home segment along with material cost increases and certain operational inefficiencies in Europe. Operating income as a percentage of net sales decreased to 13.8% in the second quarter of 2017 compared to 15.1% for the same period in the prior year.

Operating income decreased approximately $0.4 million to $162.4 million in the first six months of 2017 compared to $162.8 million in the same period of the prior year. Excluding changes in foreign currency rates, operating income increased by approximately $3.1 million in the first six months of 2017 compared to the same period a year ago; however, 2016 operating income was negatively impacted by $5.6 million of transaction costs and $2.6 million of purchase accounting adjustments related to our Mega Airless acquisition. In addition to the decrease in operating income attributable to foreign currency effects, the remaining decrease is due to the softness in sales from our Beauty + Home segment, material cost increases and certain operational inefficiencies as discussed above. Operating income as a percentage of net sales decreased to 13.3% in the first six months of 2017 compared to 13.6% for the same period in the prior year.

NET OTHER EXPENSE

Net other expense in the second quarter of 2017 decreased to $5.3 million from $9.3 million in the same period of the prior year. This is due to $1.5 million of lower interest expense primarily related to the repatriation that was completed in the first quarter and the subsequent pay down of the revolving credit facility in the U.S. We also realized $2.5 million of income on our forward exchange contracts due to the forward points in the currencies in which we were invested.

Net other expenses for the six months ended June 30, 2017 decreased to $13.4 million from $18.6 million in the same period of the prior year. As discussed above, this decrease is mainly due to $1.8 million of lower interest expense on our revolving credit facility in the U.S. along with $2.5 million of income realized on our foreign exchange contracts.

EFFECTIVE TAX RATE

The reported effective tax rate decreased to 18.1% for the three months ended June 30, 2017 compared to 30.0% for the same period ended June 30, 2016. The current year rate includes a benefit of 7% from the new accounting standard for employee share-based payments, which the Company has adopted in 2017 and an additional 4% reduction in connection with our repatriation activities, which was primarily related to tax benefits associated with the forward contract discussed in Note 8 to the Unaudited Notes to the Condensed Consolidated Financial Statements.

The reported effective tax rate also decreased to 21.5% for the six months ended June 30, 2017 compared to 28.6% for the six months ended June 30, 2016. The rate also benefitted from the new accounting standard for employee share-based payments as well as from tax credits due to repatriation activities mentioned above. The tax rate for 2016 reflected benefits attributable to investment incentives and tax refunds in France.

NET INCOME ATTRIBUTABLE TO APTARGROUP, INC.

We reported net income attributable to AptarGroup, Inc. of $65.2 million and $117.0 million in the three and six months ended June 30, 2017, respectively, compared to $59.0 million and $102.9 million for the same periods in the prior year.

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BEAUTY + HOME SEGMENT

Operations that sell dispensing systems and sealing solutions 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,	
	2017	2016	2017	2016
Net Sales	$ 322,117	$ 340,321	$ 644,565	$ 654,657
Segment Income	25,203	30,547	47,411	54,075
Segment Income as a percentage of Net Sales	7.8%	9.0%	7.4%	