APTARGROUP INC
Form 10-Q
May 01, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2019

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.)

265 EXCHANGE DRIVE, SUITE 100, 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 every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a 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.

Large accelerated filer Accelerated filer Non-accelerated filer 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 April 24, 2019
Common Stock, $.01 par value per share	63,192,199 shares

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AptarGroup, Inc.

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PART I – FINANCIAL INFORMATION

ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)

AptarGroup, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF INCOME

(Unaudited)

In thousands, except per share amounts		
Three Months Ended March 31,	2019	2018
Net Sales	$ 744,460	$ 703,350
Operating Expenses:		
Cost of sales (exclusive of depreciation and amortization shown below)	469,132	455,822
Selling, research & development and administrative	121,215	112,461
Depreciation and amortization	47,489	41,175
Restructuring initiatives	9,530	5,936
	647,366	615,394
Operating Income	97,094	87,956
Other (Expense) Income:		
Interest expense	(9,214)	(8,055)
Interest income	1,748	2,248
Equity in results of affiliates	(95)	(65)
Miscellaneous, net	466	(867)
	(7,095)	(6,739)
Income before Income Taxes	89,999	81,217
Provision for Income Taxes	27,000	21,929
Net Income	$ 62,999	$ 59,288
Net Loss Attributable to Noncontrolling Interests	$ 5	$ 12
Net Income Attributable to AptarGroup, Inc.	$ 63,004	$ 59,300
Net Income Attributable to AptarGroup, Inc. per Common Share:		
Basic	$ 1.00	$ 0.95

Diluted	$ 0.96	$ 0.92
Average Number of Shares Outstanding:		
Basic	62,964	62,128
Diluted	65,349	64,414
Dividends per Common Share	$ 0.34	$ 0.32

See accompanying unaudited Notes to Condensed Consolidated Financial Statements.

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AptarGroup, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

(Unaudited)

In thousands		
Three Months Ended March 31,	2019	2018
Net Income	$ 62,999	$ 59,288
Other Comprehensive Income:		
Foreign currency translation adjustments	(9,611)	22,935
Changes in treasury locks, net of tax	—	7
(Loss) gain on derivatives, net of tax	(393)	346
Defined benefit pension plan, net of tax		
Amortization of prior service cost included in net income, net of tax	84	96
Amortization of net loss included in net income, net of tax	637	1,260
Total defined benefit pension plan, net of tax	721	1,356
Total other comprehensive (loss) income	(9,283)	24,644
Comprehensive Income	53,716	83,932
Comprehensive (Income) Loss Attributable to Noncontrolling Interests	(3)	1
Comprehensive Income Attributable to AptarGroup, Inc.	$ 53,713	$ 83,933

See accompanying unaudited Notes to Condensed Consolidated Financial Statements.

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AptarGroup, Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

In thousands

	March 31, 2019	December 31, 2018
Assets		
Current Assets:		
Cash and equivalents	$ 217,377	$ 261,823
Accounts and notes receivable, less allowance for doubtful accounts of $3,820 in 2019 and $3,541 in 2018	599,561	569,630
Inventories	390,403	381,110
Prepaid and other	122,104	118,245
	1,329,445	1,330,808
Property, Plant and Equipment:		
Buildings and improvements	463,551	453,572
Machinery and equipment	2,385,283	2,368,332
	2,848,834	2,821,904
Less: Accumulated depreciation	(1,866,875)	(1,855,810)
	981,959	966,094
Land	25,171	25,519
	1,007,130	991,613
Other Assets:		
Investments in equity securities	8,923	25,448
Goodwill	703,709	712,095
Intangible assets	246,899	254,904
Operating lease right-of-use assets	82,099	—
Miscellaneous	37,429	62,867
	1,079,059	1,055,314
Total Assets	$ 3,415,634	$ 3,377,735

See accompanying unaudited Notes to Condensed Consolidated Financial Statements.

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AptarGroup, Inc.

CONDENSED CONSOLIDATED BALANCE SHEETS

(Unaudited)

In thousands, except share and per share amounts

	March 31, 2019	December 31, 2018
Liabilities and Stockholders' Equity		
Current Liabilities:		
Notes payable, including revolving credit facilities	$ 17,683	$ 101,293
Current maturities of long-term obligations, net of unamortized debt issuance costs	63,981	62,678
Accounts payable and accrued liabilities	542,252	525,199
	623,916	689,170
Long-Term Obligations, net of unamortized debt issuance costs	1,141,062	1,125,993
Deferred Liabilities and Other:		
Deferred income taxes	29,938	53,917
Retirement and deferred compensation plans	63,691	62,319
Operating lease liabilities	64,592	—
Deferred and other non-current liabilities	24,721	23,465
Commitments and contingencies	—	—
	182,942	139,701
Stockholders' Equity:		
AptarGroup, Inc. stockholders' equity		
Common stock, $.01 par value, 199 million shares authorized, 67.6 and 67.3 million shares issued as of March 31, 2019 and December 31, 2018, respectively	676	673
Capital in excess of par value	700,933	678,769
Retained earnings	1,413,453	1,371,826
Accumulated other comprehensive (loss)	(319,795)	(310,504)
Less: Treasury stock at cost, 4.5 and 4.4 million shares as of March 31, 2019 and December 31, 2018, respectively	(327,871)	(318,208)
Total AptarGroup, Inc. Stockholders' Equity	1,467,396	1,422,556
Noncontrolling interests in subsidiaries	318	315
Total Stockholders' Equity	1,467,714	1,422,871
Total Liabilities and Stockholders' Equity	$ 3,415,634	$ 3,377,735

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, 2017	$ 1,301,147	$ (253,302)	$ 667	$ (346,245)	$ 609,471	$ 310	$ 1,312,048
Net income	59,300	—	—	—	—	(12)	59,288
Adoption of revenue recognition standard	2,937	—	—	—	—	—	2,937
Foreign currency translation adjustments	—	22,924	—	—	—	11	22,935
Changes in unrecognized pension gains (losses) and related amortization, net of tax	—	1,356	—	—	—	—	1,356
Changes in treasury locks, net of tax	—	7	—	—	—	—	7
Changes in derivative gains, net of tax	—	346	—	—	—	—	346
Stock awards and option exercises	—	—	5	12,174	30,212	—	42,391
Cash dividends	(19,830)	—	—	—	—	—	(19,830)

declared on common stock							
Treasury stock purchased	—	—	—	(3,905)	—	—	(3,905)
Common stock repurchased and retired	(11,336)	—	(1)	—	(1,460)	—	(12,797)
Balance - March 31, 2018	$ 1,332,218	$ (228,669)	$ 671	$ (337,976)	$ 638,223	$ 309	$ 1,404,776
Balance - December 31, 2018	$ 1,371,826	$ (310,504)	$ 673	$ (318,208)	$ 678,769	$ 315	$ 1,422,871
Net income	63,004	—	—	—	—	(5)	62,999
Foreign currency translation adjustments	—	(9,619)	—	—	—	8	(9,611)
Changes in unrecognized pension gains (losses) and related amortization, net of tax	—	721	—	—	—	—	721
Changes in derivative gains, net of tax	—	(393)	—	—	—	—	(393)
Stock awards and option exercises	—	—	3	5,337	22,164	—	27,504
Cash dividends declared on common stock	(21,377)	—	—	—	—	—	(21,377)
Treasury stock purchased	—	—	—	(15,000)	—	—	(15,000)
Balance - March 31, 2019	$ 1,413,453	$ (319,795)	$ 676	$ (327,871)	$ 700,933	$ 318	$ 1,467,714

See accompanying unaudited Notes to Condensed Consolidated Financial Statements.

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AptarGroup, Inc.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

In thousands, brackets denote cash outflows

Three Months Ended March 31,	2019	2018
Cash Flows from Operating Activities:		
Net income	$ 62,999	$ 59,288
Adjustments to reconcile net income to net cash provided by operations:		
Depreciation	41,487	38,357
Amortization	6,002	2,818
Stock-based compensation	6,565	7,511
Provision for doubtful accounts	497	94
Loss (gain) on disposition of fixed assets	310	(859)
Deferred income taxes	671	(2,733)
Defined benefit plan expense	3,858	4,872
Equity in results of affiliates	95	65
Changes in balance sheet items, excluding effects from foreign currency adjustments:		
Accounts and other receivables	(35,301)	(67,484)
Inventories	(13,097)	(18,575)
Prepaid and other current assets	(2,282)	129
Accounts payable and accrued liabilities	6,865	26,744
Income taxes payable	3,511	3,255
Retirement and deferred compensation plan liabilities	(5,940)	(5,381)
Other changes, net	1,396	2,918
Net Cash Provided by Operations	77,636	51,019
Cash Flows from Investing Activities:		
Capital expenditures	(51,742)	(40,019)
Proceeds from sale of property and equipment	178	2,848
Insurance proceeds	—	10,631
Acquisition of business, release of escrow	(4,036)	—
Acquisition of intangible assets	(221)	(124)
Proceeds from sale of investment in equity securities	16,487	—
Notes receivable, net	231	208
Net Cash (Used) by Investing Activities	(39,103)	(26,456)
Cash Flows from Financing Activities:		
Proceeds from notes payable	16,783	8,564
Repayments of notes payable	(21,130)	(3,956)
Proceeds and repayments of short term credit facility, net	(78,222)	—
Proceeds from long-term obligations	10,446	2,524
Repayments of long-term obligations	(3,227)	(3,855)

Dividends paid	(21,377)	(19,830)
Proceeds from stock option exercises	20,939	34,880
Purchase of treasury stock	(15,000)	(3,905)
Common stock repurchased and retired	—	(12,797)
Net Cash (Used) Provided by Financing Activities	(90,788)	1,625
Effect of Exchange Rate Changes on Cash	2,809	5,930
Net (Decrease) Increase in Cash and Equivalents and Restricted Cash	(49,446)	32,118
Cash and Equivalents and Restricted Cash at Beginning of Period	266,823	712,640
Cash and Equivalents and Restricted Cash at End of Period	$ 217,377	$ 744,758

Restricted cash included in the line item prepaid and other on the Condensed Consolidated Balance Sheets as shown below represents amounts held in escrow.

Three Months Ended March 31,	2019	2018
Cash and equivalents	$ 217,377	$ 741,062
Restricted cash included in prepaid and other	—	3,696
Total Cash and Equivalents and Restricted Cash shown in the Statement of Cash Flows	$ 217,377	$ 744,758

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

In the opinion of management, the unaudited Condensed Consolidated Financial Statements (the "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 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 we believe 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 our Annual Report on Form 10-K for the year ended December 31, 2018 but does not include all disclosures required by U.S. GAAP. Accordingly, these Condensed Consolidated Financial Statements and related notes should be read in conjunction with the audited Consolidated Financial Statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2018. The results of operations of any interim period are not necessarily indicative of the results that may be expected for the year.

During the quarter ended June 30, 2018, primarily based on published estimates, which indicate that Argentina's three-year cumulative inflation rate has exceeded 100%, we concluded that Argentina has become a highly inflationary economy. Beginning July 1, 2018, we have applied highly inflationary accounting for our Argentinian subsidiaries. We have changed the functional currency from the Argentinian peso to the U.S. dollar. Local currency monetary assets and liabilities have been remeasured into U.S. dollars using exchange rates as of the latest balance sheet date, with remeasurement adjustments and other transaction gains and losses recognized in net earnings. Our Argentinian operations contributed approximately 2.0% of consolidated net assets and revenues at and for the three months ended March 31, 2019.

LEASES

We determine if an arrangement is a lease at inception. Operating lease assets are included in operating lease right-of-use (“ROU”) assets and liabilities are included in Accounts payable and accrued liabilities and operating lease liabilities in our consolidated balance sheets. Finance leases are included in property, plant and equipment, current maturities of long-term obligations and long-term obligations in our consolidated balance sheets.

ROU assets represent our right to use an underlying asset for the lease term and lease liabilities represent our obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. We use the implicit rate when readily determinable. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at the commencement date of the lease in determining the present value of lease payments. The operating lease ROU asset includes any lease payments made as well as initial direct costs incurred and excludes lease incentives. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for operating lease payments is recognized on a straight-line basis over the lease term.

We have lease agreements with lease and non-lease components, which are generally accounted for separately. For certain equipment leases, we account for the lease and non-lease components as a single lease component. We have elected not to recognize right-of-use assets and lease liabilities that arise from short-term leases (a lease whose term is 12 months or less and does not include a purchase option that we are reasonably certain to exercise).

Certain vehicle lease contracts include guaranteed residual value that is considered in the determination of lease classification. The probability of having to satisfy a residual value guarantee is not considered for the purpose of lease classification, but is considered when measuring a lease liability.

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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 February 2016, the FASB issued a new standard related to leases to increase transparency and comparability among organizations by requiring the recognition of ROU assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases. We adopted the standard effective January 1, 2019 using a modified retrospective transition, using the effective date method. Under this method, financial results reported in periods prior to 2019 are not recast. We elected the package of practical expedients permitted under the transition guidance within the new standard, which among other things, allows companies to carry forward their historical lease classification. We also implemented internal controls and key system functionality to enable the preparation of financial information on adoption. The most significant impact was the recognition of ROU assets and lease liabilities for operating leases, as our accounting for finance leases remained substantially unchanged. The impact of adoption of the standard to previously reported results is shown below.

	Balance at December 31, 2018	Adjustments	Balance at January 1, 2019
Consolidated Balance Sheets			
Operating lease right-of-use assets	$ —	$ 83,222	$ 83,222
Prepaid and other	118,245	(1,383)	116,862
Property, plant and equipment	991,613	5,876	997,489
Current maturities of long-term obligations, net of unamortized debt issuance costs	62,678	2,631	65,309
Accounts payable and accrued liabilities	525,199	20,508	545,707
Operating lease liabilities	—	61,331	61,331
Long-term obligations, net of unamortized debt issuance costs	1,125,993	3,245	1,129,238

In February 2018, the FASB issued ASU 2018-02, which provides guidance on the reclassification of certain tax effects from accumulated other comprehensive income. This guidance allows for the reclassification from accumulated other comprehensive income to retained earnings for stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 ("TCJA"). The new standard is effective for fiscal years and interim periods beginning after December 15, 2018. We elected to early adopt this standard in the fourth quarter of 2018. As part of this adoption, we elected to reclassify $6.7 million of stranded income tax effects of the TCJA from accumulated other comprehensive income to retained earnings at the beginning of the fourth quarter of 2018.

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

RETIREMENT OF COMMON STOCK

During the first quarter of 2019, we repurchased 159 thousand shares of common stock, all of which were returned to treasury stock. During the first quarter of 2018, we repurchased 189 thousand shares of common stock, of which 144 thousand shares were immediately retired. Common stock was reduced by the number of shares retired at $0.01 par value per share. We allocate the excess purchase price over par value between additional paid-in capital and retained earnings.

INCOME TAXES

We compute 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 temporary 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.

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All of our non-U.S. earnings are subject to U.S. taxation, either from the transition tax enacted in the U.S. by the TCJA on accumulated non-U.S. earnings as of the end of 2017 or the global intangible low-taxed income (“GILTI”) provisions on non-U.S. earnings thereafter. We maintain our assertion that the cash and distributable reserves at our non-U.S. affiliates are indefinitely reinvested. We will provide for the necessary withholding and local income taxes when management decides that an affiliate should make a distribution. These decisions are made taking into consideration the financial requirements of the non-U.S. affiliates and the global cash management goals of the Company.

We provide a liability for the amount of unrecognized tax benefits from uncertain tax positions. This liability is provided whenever we determine that a tax benefit will not meet a more-likely-than-not threshold for recognition. See Note 5 - Income Taxes for more information.

NOTE 2 – REVENUE

At contract inception, we assess the goods and services promised in our contracts with customers and identify a performance obligation for each promise to transfer a good or service (or bundle of goods or services) that is distinct. To identify the performance obligations, we consider all the goods or services promised in the contract, whether explicitly stated or implied based on customary business practices. For a contract that has more than one performance obligation, we allocate the total contract consideration to each distinct performance obligation on a relative standalone selling price basis. Revenue is recognized when (or as) the performance obligations are satisfied (i.e., when the customer obtains control of the good or service). The majority of our revenues are derived from product and tooling sales; however, we also receive revenues from service, license, exclusivity and royalty arrangements, which are considered insignificant. Revenue by segment and geography for the three months ended March 31, 2019 and 2018 is as follows:

	For the Three Months Ended March 31, 2019				
Segment	Europe	Domestic	Latin America	Asia	Total
Beauty + Home	$ 216,233	$ 86,979	$ 42,642	$ 21,805	$ 367,659
Pharma	184,174	71,772	7,656	9,099	272,701
Food + Beverage	30,961	55,120	7,884	10,135	104,100
Total	$ 431,368	$ 213,871	$ 58,182	$ 41,039	$ 744,460

For the Three Months Ended March 31, 2018

Segment	Europe	Domestic	Latin America	Asia	Total
Beauty + Home	$ 224,612	$ 83,074	$ 48,266	$ 22,221	$ 378,173
Pharma	175,675	39,096	6,245	9,111	230,127
Food + Beverage	29,811	48,215	7,763	9,261	95,050
Total	$ 430,098	$ 170,385	$ 62,274	$ 40,593	$ 703,350

We perform our obligations under a contract with a customer by transferring goods and/or services in exchange for consideration from the customer. The timing of performance will sometimes differ from the timing of the receipt of the associated consideration from the customer, thus resulting in the recognition of a contract asset or a contract liability. We recognize a contract asset when we transfer control of goods or services to a customer prior to invoicing for the related performance obligation. The contract asset is transferred to accounts receivable when the product is shipped and invoiced to the customer. We recognize a contract liability if the customer's payment of consideration precedes the entity's performance.

The opening and closing balances of our contract asset and contract liabilities are as follows:

	Balance as of December 31, 2018	Balance as of March 31, 2019	Increase/ (Decrease)
Contract asset (current)	$ 15,858	$ 15,894	$ 36
Contract asset (long-term)	$ —	$ —	$ —
Contract liability (current)	$ 68,134	$ 68,403	$ 269
Contract liability (long-term)	$ 11,261	$ 11,906	$ 645

The differences in the opening and closing balances of our contract asset and contract liabilities are primarily the result of timing differences between our performance and the customer’s payment. The amount of revenue recognized in the current year that was included in the opening contract liability balance was $7.5 million.

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Determining the Transaction Price

In most cases, the transaction price for each performance obligation is stated in the contract. In determining the variable amounts of consideration within the transaction price (such as volume-based customer rebates), we include an estimate of the expected amount of consideration as revenue. We apply the expected value method based on all of the information (historical, current, and forecast) that is reasonably available and identify reasonable estimates based on this information. We apply the method consistently throughout the contract when estimating the effect of an uncertainty on the amount of variable consideration to which we will be entitled.

Product Sales

We primarily manufacture dispensing systems for our Beauty + Home, Pharma, and Food + Beverage customers. The amount of consideration is typically fixed for such customers. At the time of delivery, the customer is invoiced the agreed-upon price. Revenue from product sales is typically recognized upon manufacture or shipment, when control of the goods transfers to the customer.

To determine when the control transfers, we typically assess, among other things, the shipping terms of the contract, shipping being one of the indicators of transfer of control. A majority of product sales are sold FOB shipping point. For FOB shipping point shipments, control of the goods transfers to the customer at the time of shipment of the goods. Therefore, our performance obligation is satisfied at the time of shipment. We have elected to account for shipping and handling costs that occur after the customer has obtained control of a good as fulfillment costs rather than as a promised service. We do not have any material significant payment terms as payment is typically received shortly after the point of sale.

There also exist instances where we manufacture highly customized products that have no alternative use to us and for which we have an enforceable right to payment for performance completed to date. For these products, we transfer control and recognize revenue over time by measuring progress towards completion using the Output Method based on the number of products produced. As we normally make our products to a customer’s order, the time between production and shipment of our products is typically within a few weeks.

As a part of our customary business practice, we offer a standard warranty that the products will materially comply with the technical specifications and will be free from material defects. Because such warranties are not sold separately, do not provide for any service beyond a guarantee of a product’s initial specifications, and are not required by law, there is no revenue deferral for these types of warranties.

Tooling Sales

We also build or contract for molds and other tools (collectively defined as “tooling”) necessary to produce our products. As with product sales, we recognize revenue when control of the tool transfers to the customer. If the tooling is highly customized with no alternative use to us and we have an enforceable right to payment for performance completed to date, we transfer control and recognize revenue over time by measuring progress towards completion using the Input Method based on costs incurred relative to total estimated costs to completion. Otherwise, revenue for the tooling is recognized at the point in time when the customer approves the tool. We do not have any material significant payment terms as payment is typically either received during the mold-build process or shortly after completion.

In certain instances, we offer extended warranties on tools sold to our customers above and beyond the normal standard warranties. We normally receive payment at the inception of the contract and recognize revenue over the term of the contract. At December 31, 2018, $758 thousand of unearned revenue associated with outstanding contracts was reported in Accounts Payable and Other Liabilities. At March 31, 2019, the unearned amount was $686 thousand. We expect to recognize approximately $237 thousand of the unearned amount during the remainder of 2019, $268 thousand in 2020, and $181 thousand thereafter.

NOTE 3 - INVENTORIES

Inventories, by component, consisted of:

	March 31, 2019	December 31, 2018
Raw materials	$ 115,942	$ 110,720
Work in process	125,774	131,091
Finished goods	148,687	139,299
Total	$ 390,403	$ 381,110

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NOTE 4 – GOODWILL AND OTHER INTANGIBLE ASSETS

The changes in the carrying amount of goodwill by reporting segment since December 31, 2018 are as follows:

	Beauty + Home	Pharma	Food + Beverage	Corporate & Other	Total
Goodwill	$ 223,933	$ 359,883	$ 128,279	$ 1,615	$ 713,710
Accumulated impairment losses	—	—	—	(1,615)	(1,615)
Balance as of December 31, 2018	$ 223,933	$ 359,883	$ 128,279	$ —	$ 712,095
Acquisition	—	(964)	—	—	(964)
Foreign currency exchange effects	(2,041)	(5,255)	(126)	—	(7,422)
Goodwill	$ 221,892	$ 353,664	$ 128,153	$ 1,615	$ 705,324
Accumulated impairment losses	—	—	—	(1,615)	(1,615)
Balance as of March 31, 2019	$ 221,892	$ 353,664	$ 128,153	$ —	$ 703,709

The table below shows a summary of intangible assets as of March 31, 2019 and December 31, 2018.

		March 31, 2019			December 31, 2018		
	Weighted Average Amortization Period (Years)	Gross Carrying Amount	Accumulated Amortization	Net Value	Gross Carrying Amount	Accumulated Amortization	Net Value
Amortized intangible assets:							
Patents	1.9	$ 5,545	(4,754)	$ 791	$ 5,427	$ (5,294)	$ 133
Acquired technology	13.5	90,867	(19,774)	71,093	92,389	(18,304)	74,085
Customer relationships	14.3	178,142	(22,784)	155,358	179,597	(20,439)	159,158
Trademarks and trade names	7.0	21,105	(7,928)	13,177	21,243	(5,914)	15,329
License agreements and other	11.9	14,171	(7,691)	6,480	13,852	(7,653)	6,199
Total intangible assets	13.2	$ 309,830	$ (62,931)	$ 246,899	$ 312,508	$ (57,604)	$ 254,904

Aggregate amortization expense for the intangible assets above for the quarters ended March 31, 2019 and 2018 was $6,002 and $2,818, respectively.

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

2019	$ 18,142	(remaining estimated amortization for 2019)
2020	22,643	
2021	21,831	
2022	21,545	
2023 and thereafter	162,738	

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 March 31, 2019.

NOTE 5 – INCOME TAXES

Based on current tax laws, our estimated annual effective tax rate for 2019, excluding discrete tax impacts, is 30.4%. This rate reflects the mix of pre-tax income in various non-U.S. jurisdictions and the reduced U.S. federal tax rate, offset by unfavorable provisions within the U.S. tax law and U.S. state income tax increases. The reported effective tax rate for the three months ended March 31, 2019 was 30.0%, as the impact of discrete tax items in the period were largely offsetting. The reported effective tax rate for the three months ended March 31, 2018 was 27.0%. The prior year tax rate was favorably impacted by $4.4 million of tax benefits from employee share-based compensation.

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NOTE 6 – DEBT

We hold U.S. dollar and euro-denominated debt to align our capital structure with our earnings base. At March 31, 2019, our long-term obligations consisted of the following:

	Principal	Unamortized Debt Issuance Costs	Net
Notes payable 0.00% – 16.00%, due in monthly and annual installments through 2028	$ 23,421	$ —	$ 23,421
Senior unsecured notes 3.2%, due in 2022	75,000	83	74,917
Senior unsecured debts 4.3% USD floating swapped to 1.36% EUR fixed, equal annual installments through 2022	224,000	503	223,497
Senior unsecured notes 3.5%, due in 2023	125,000	172	124,828
Senior unsecured notes 1.0%, due in 2023	112,165	408	111,757
Senior unsecured notes 3.4%, due in 2024	50,000	73	49,927
Senior unsecured notes 3.5%, due in 2024	100,000	172	99,828
Senior unsecured notes 1.2%, due in 2024	224,330	863	223,467
Senior unsecured notes 3.6%, due in 2025	125,000	200	124,800
Senior unsecured notes 3.6%, due in 2026	125,000	200	124,800
Financial lease liabilities	23,801	—	23,801
	$ 1,207,717	$ 2,674	$ 1,205,043
Current maturities of long-term obligations	(63,981)	—	(63,981)
Total long-term obligations	$ 1,143,736	$ 2,674	$ 1,141,062

At December 31, 2018, our long-term obligations consisted of the following:

	Principal	Unamortized Debt Issuance Costs	Net
Notes payable 0.00% – 16.00%, due in monthly and annual installments through 2028	$ 15,531	$ —	$ 15,531
Senior unsecured notes 3.2%, due in 2022	75,000	88	74,912
Senior unsecured debts 4.0% USD floating swapped to 1.36% EUR fixed, equal annual installments through 2022	224,000	541	223,459
Senior unsecured notes 3.5%, due in 2023	125,000	181	124,819

Senior unsecured notes 1.0%, due in 2023	114,535	432	114,103
Senior unsecured notes 3.4%, due in 2024	50,000	76	49,924
Senior unsecured notes 3.5%, due in 2024	100,000	181	99,819
Senior unsecured notes 1.2%, due in 2024	229,070	904	228,166
Senior unsecured notes 3.6%, due in 2025	125,000	207	124,793
Senior unsecured notes 3.6%, due in 2026	125,000	208	124,792
Capital lease obligations	8,353	—	8,353
	$ 1,191,489	$ 2,818	$ 1,188,671
Current maturities of long-term obligations	(62,678)	—	(62,678)
Total long-term obligations	$ 1,128,811	$ 2,818	$ 1,125,993

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

	Requirement	Level at March 31, 2019
Consolidated Leverage Ratio (1)	Maximum of 3.50 to 1.00	2.00 to 1.00
Consolidated Interest Coverage Ratio (1)	Minimum of 3.00 to 1.00	14.75 to 1.00

(1) Definitions of ratios are included as part of the revolving credit facility agreement and the note purchase agreements.

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We also maintain a multi-currency revolving credit facility with two tranches, providing for unsecured financing of up to $300 million that is available in the U.S. and up to €150 million that is available to our wholly-owned UK subsidiary. Each borrowing under the credit facility will bear interest at rates based on LIBOR, prime rates or other similar rates, in each case plus an applicable margin. A facility fee on the total amount of the facility is also payable quarterly, regardless of usage. The applicable margins for borrowings under the credit facility and the facility fee percentage may change from time to time depending on changes in our consolidated leverage ratio. The December 31, 2018 outstanding balance of €69.0 million on the euro-based revolving credit facility was paid in the first quarter of 2019. No balances were drawn as of March 31, 2019. Credit facility balances are included in notes payable, including revolving credit facilities on the Condensed Consolidated Balance Sheet.

Aggregate long-term maturities, excluding finance lease obligations, due annually from the current balance sheet date for the next five years are $60,592, $62,195, $61,111, $135,252, $339,883 and $524,883 thereafter.

NOTE 7 – LEASE COMMITMENTS

We lease certain warehouse, plant and office facilities as well as certain equipment under noncancelable operating and finance leases expiring at various dates through the year 2028. Most of the operating leases contain renewal options and certain leases include options to purchase the related asset during or at the end of the lease term.

Amortization expense related to finance leases is included in depreciation expense while rent expense related to operating leases is included within cost of sales and selling research & development and administrative expenses (“SG&A”). Rent expense related to operating leases (including taxes, insurance and maintenance when included in the rent) amounted to $8.1 million in the first quarter of 2018 under the old lease accounting standard.

The components of lease expense for the current period were as follows:

Three Months Ended March 31,	2019
Operating lease cost	$ 6,004
Finance lease cost:	
Amortization of right-of-use assets	$ 872
Interest on lease liabilities	315
Total finance lease cost	$ 1,187
Short-term lease and variable lease costs	$ 1,942

Supplemental cash flow information related to leases was as follows:

Three Months Ended March 31,	2019
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from operating leases	$ 6,469
Operating cash flows from finance leases	243

Financing cash flows from finance leases	1,140
Right-of-use assets obtained in exchange for lease obligations:	
Operating leases	$ 4,515
Finance leases	10,697

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Supplemental balance sheet information related to leases was as follows:

	March 31, 2019
Operating Leases	
Operating lease right-of-use assets	$ 82,099
Accounts payable and accrued liabilities	$ 15,935
Operating lease liabilities	64,592
Total operating lease liabilities	$ 80,527
Finance Leases	
Property, plant and equipment, gross	$ 31,735
Accumulated depreciation	(1,095)
Property, plant and equipment, net	$ 30,640
Current maturities of long-term obligations, net of unamortized debt issuance cost	$ 3,389
Long-term obligations, net of unamortized debt issuance cost	20,412
Total finance lease liabilities	$ 23,801
Weighted Average Remaining Lease Term (in years)	
Operating leases	6.4
Finance leases	7.3
Weighted Average Discount Rate	
Operating leases	4.92 %
Finance leases	5.66 %

Maturities of lease liabilities as of March 31, 2019, were as follows:

	Operating Leases	Finance Leases
Year 1	$ 19,988	$ 4,605
Year 2	16,408	3,704
Year 3	12,897	3,087
Year 4	10,467	