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PAXAR CORP
Form 10-Q
November 05, 2004

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended September 30, 2004

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: 1-9493

Paxar Corporation

(Exact name of registrant as specified in its charter)

New York

13-5670050

(State or other jurisdiction of incorporation or organization)

(I.R.S. Employer Identification No.)

105 Corporate Park Drive
White Plains, New York

10604

(Address of principal executive offices)

(Zip Code)

914-697-6800

(Registrant's telephone number, including area code)

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 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 is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). Yes No

APPLICABLE ONLY TO CORPORATE ISSUERS:

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

Common Stock, \$0.10 par value: 39,644,756 shares outstanding as of November 5, 2004

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PART I FINANCIAL INFORMATION

ITEM 1: CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements included herein have been prepared by Paxar Corporation (the "Company"), without audit pursuant to the rules and regulations of the Securities and Exchange Commission. While certain information disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States have been condensed or omitted pursuant to such rules and regulations, the Company believes that the disclosures made herein are adequate to make the information presented not misleading. It is recommended that these financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2003.

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PAXAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF INCOME (in millions, except per share amounts) (unaudited)

	Three Months Ended September 30,		Nine Mo Septe
	2004	2003	2004
Sales.....	\$ 194.2	\$ 170.7	\$ 597.0
Cost of sales.....	119.1	106.0	365.6
	75.1	64.7	231.4
Gross profit.....			
Selling, general and administrative expenses.....	59.2	52.6	178.2
Integration/restructuring and other costs.....	--	4.1	--
	15.9	8.0	53.2
Operating income.....			
Interest expense, net.....	2.6	2.9	8.1
	13.3	5.1	45.1
Income before taxes.....			
Taxes on income.....	3.1	1.2	10.4
	\$ 10.2	\$ 3.9	\$ 34.7
Net income.....			
Basic earnings per share.....	\$ 0.26	\$ 0.10	\$ 0.88
Diluted earnings per share.....	\$ 0.25	\$ 0.10	\$ 0.86
Weighted average shares outstanding:			
Basic.....	39.6	39.0	39.5

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Diluted..... 40.9 39.5 40.4

The accompanying notes are an integral part of the financial statements.

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PAXAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
(in millions, except share amounts)

	September 30, 2004	D

	(unaudited)	
ASSETS		
Current assets:		
Cash and cash equivalents.....	\$ 84.8	
Accounts receivable, net of allowances of \$10.9 and \$10.0 at September 30, 2004 and December 31, 2003, respectively.....	125.8	
Inventories.....	100.6	
Deferred income taxes.....	11.9	
Other current assets.....	19.3	

Total current assets.....	342.4	

Property, plant and equipment, net.....	164.5	
Goodwill and other intangible, net.....	216.7	
Other assets.....	24.4	

Total assets.....	\$ 748.0	
	=====	
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Due to banks.....	\$ 4.9	
Accounts payable and accrued liabilities.....	118.5	
Accrued taxes on income.....	16.6	

Total current liabilities.....	140.0	

Long-term debt.....	163.1	
Deferred income taxes.....	12.4	
Other liabilities.....	18.3	
Commitments and contingent liabilities		
Shareholders' equity:		
Preferred stock, \$0.01 par value, 5,000,000 shares authorized and none issued.....	--	
Common stock, \$0.10 par value, 200,000,000 shares authorized, 39,644,756 and 39,148,055 shares issued and outstanding at September 30, 2004 and December 31, 2003, respectively.....	4.0	

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Paid-in capital.....	14.4
Retained earnings.....	380.2
Accumulated other comprehensive income.....	15.6

Total shareholders' equity.....	414.2

Total liabilities and shareholders' equity.....	\$ 748.0
	=====

The accompanying notes are an integral part of the financial statements.

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PAXAR CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in millions)
(unaudited)

	Nine Months Ended September 30,	
	2004	2003
	-----	-----
OPERATING ACTIVITIES		
Net income.....	\$ 34.7	\$ 12
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization.....	23.3	22
Deferred income taxes.....	0.4	
Gain on sale of property and equipment, net.....	(0.3)	(0
Write-off of property and equipment.....	1.2	4
Changes in assets and liabilities, net of businesses acquired:		
Accounts receivable.....	0.4	(7
Inventories.....	(8.4)	(8
Other current assets.....	(3.3)	(5
Accounts payable and accrued liabilities.....	14.6	3
Accrued taxes on income.....	4.8	0
Other, net.....	(1.5)	7
	-----	-----
Net cash provided by operating activities.....	65.9	29
	-----	-----
INVESTING ACTIVITIES		
Purchases of property and equipment.....	(25.1)	(23
Proceeds from sale of property and equipment.....	0.6	0
Acquisitions, net of cash acquired.....	(0.1)	(28
Other.....	1.3	
	-----	-----
Net cash used in investing activities.....	(23.3)	(52
	-----	-----
FINANCING ACTIVITIES		

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Net increase in short-term debt.....	0.7	2
Additions to long-term debt.....	44.3	201
Reductions in long-term debt.....	(71.5)	(167)
Purchase of common stock.....	--	(5)
Proceeds from common stock issued under employee stock option and stock purchase plans.....	4.2	3
	-----	-----
Net cash (used in)/provided by financing activities.....	(22.3)	34
	-----	-----
Effect of exchange rate changes on cash flows.....	0.1	0
	-----	-----
Increase in cash and cash equivalents.....	20.4	12
Cash and cash equivalents at beginning of year.....	64.4	49
	-----	-----
Cash and cash equivalents at end of period.....	\$ 84.8	\$ 62
	=====	=====

The accompanying notes are an integral part of the financial statements.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(in millions, except employee headcount, share and per share data)

NOTE 1: GENERAL

The accompanying unaudited consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial statements and the instructions for Form 10-Q. The interim financial statements are unaudited. In the opinion of management, all adjustments (which consist only of normal recurring adjustments) necessary to present fairly the results of operations and financial condition for the interim periods presented have been made.

Certain reclassifications have been made to the prior periods' consolidated financial statements and related note disclosures to conform to the presentation used in the current period.

NOTE 2: STOCK-BASED COMPENSATION EFFECT ON NET INCOME

Statement of Financial Accounting Standards ("SFAS") No. 123, "Accounting for Stock-Based Compensation," provides for a fair-value based method of accounting for employee options and measures compensation expense using an option valuation model that takes into account, as of the grant date, the exercise price and expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate for the expected term of the option. The Company has elected to continue accounting for employee stock-based compensation under Accounting Principles Board ("APB") Opinion 25. Under APB Opinion 25, because the exercise price of the Company's employee stock options equals the market price of the underlying stock on the date of grant, no compensation expense is recognized. The following table presents pro forma net income and earnings per share had the Company elected to adopt SFAS No. 123:

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	Three Months Ended September 30,		Nine Mo Septe
	2004	2003	2004
Net income, as reported.....	\$ 10.2	\$ 3.9	\$ 34.7
Deduct: Stock-based employee compensation expense determined under fair value based method for all awards granted, net of related tax effects.....	--	--	(3.9)
Pro forma net income.....	\$ 10.2	\$ 3.9	\$ 30.8
Earnings per share:			
Basic - as reported.....	\$ 0.26	\$ 0.10	\$ 0.88
Basic - pro forma.....	\$ 0.26	\$ 0.10	\$ 0.78
Diluted - as reported.....	\$ 0.25	\$ 0.10	\$ 0.86
Diluted - pro forma.....	\$ 0.25	\$ 0.10	\$ 0.76

For the nine months ended September 30, 2004 and 2003, the Company received proceeds of \$3.8 and \$2.2, respectively, from 514,000 and 227,000 common shares issued upon the exercise of options granted to employees and directors.

NOTE 3: RECENT ACCOUNTING PRONOUNCEMENT

In December 2003, the Financial Accounting Standards Board ("FASB") reissued FASB Interpretation ("FIN") No. 46, "Consolidation of Variable Interest Entities - an Interpretation of ARB No. 51." FIN No. 46 clarifies the application of Accounting Research Bulletin No. 51, "Consolidated Financial Statements," to certain entities in which equity investors do not have the characteristics of a controlling financial interest or do not have sufficient equity risk for the entity to finance its activities without additional subordinated financial support. The provisions of FIN No. 46 are effective for the Company for the interim periods ending after March 15, 2004. The adoption of FIN No. 46 did not have an impact on the Company's results of operations or financial condition.

NOTE 4: FINANCIAL INSTRUMENTS AND DERIVATIVES

The Company applies the provisions of SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," as amended by SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities-Deferral of the Effective Date of SFAS No. 133," SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities," and SFAS No. 149, "Amendment of Statement 133 on Derivative Instruments and Hedging Activities." These statements outline the accounting treatment for all derivative activities and require that an entity recognize all derivative instruments as either assets or liabilities on its balance sheet at their fair value. Gains and losses resulting from changes in the fair value of derivatives are recorded each period in current or comprehensive earnings, depending on whether a derivative is designated as part of an effective hedge transaction and the resulting type of hedge transaction. Gains and losses on derivative instruments reported in

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comprehensive earnings will be reclassified to earnings in the period in which earnings are affected by the hedged item.

The Company manages a foreign currency hedging program to hedge against fluctuations in foreign currency-denominated trade liabilities by periodically entering into forward foreign exchange contracts. The aggregate notional value of forward foreign exchange contracts the Company entered into amounted to \$29 and \$15 for the three months ended September 30, 2004 and 2003, respectively, and \$94 and \$41 for the nine months ended September 30, 2004 and 2003.

The Company formally designates and documents the hedging relationship and risk management objective for undertaking the hedge. The documentation describes the hedging instrument, the item being hedged, the nature of the risk being hedged and the Company's assessment of the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value.

The fair value of outstanding forward foreign exchange contracts at September 30, 2004 and December 31, 2003, for delivery of various currencies at various future dates and the changes in fair value recorded in income during the three and nine months ended September 30, 2004, were not material. The notional value of outstanding forward foreign exchange contracts at September 30, 2004 and December 31, 2003, was \$9 and \$19, respectively.

All financial instruments of the Company, with the exception of hedge instruments, are carried at cost, which approximates fair value.

NOTE 5: INVENTORIES, NET

Inventories are stated at the lower of cost or market. The value of net inventories determined using the last-in, first-out method was \$13.0 and \$14.3 as of September 30, 2004 and December 31, 2003, respectively. The value of all other net inventories determined using the first-in, first-out method was \$87.6 and \$79.8 as of September 30, 2004 and December 31, 2003, respectively.

The components of net inventories are as follows:

	September 30, 2004	Dec 2003
	-----	-----
Raw materials.....	\$ 48.0	\$
Work-in-process.....	9.7	
Finished goods.....	61.7	
	-----	-----
	119.4	
Allowance for obsolescence.....	(18.8)	
	-----	-----
	\$ 100.6	\$
	=====	=====

NOTE 6: GOODWILL AND OTHER INTANGIBLE, NET

The Company applies the provisions of SFAS No. 141, "Business Combinations,"

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and SFAS No. 142, "Goodwill and Other Intangible Assets." SFAS No. 141 requires that all business combinations be accounted for using the purchase method of accounting and that certain intangible assets acquired in a business combination be recognized as assets apart from goodwill. Under SFAS No. 142, goodwill is not amortized. Instead, the Company is required to test goodwill for impairment at least annually using a fair value approach, at the reporting unit level. In addition, the Company evaluates goodwill for impairment if an event occurs or circumstances change, which could result in the carrying value of a reporting unit exceeding its fair value. Factors the Company considers important which could indicate impairment include the following: (1) significant under-performance relative to historical or projected future operating results; (2) significant changes in the manner of the Company's use of the acquired assets or the strategy for the Company's overall business; (3) significant negative industry or economic trends; (4) significant decline in the Company's stock price for a sustained period; and (5) the Company's market capitalization relative to net book value.

In accordance with SFAS No. 142, the Company completed its annual goodwill impairment assessment during the fourth quarter of 2003, and based on a comparison of the implied fair values of its reporting units with their respective carrying amounts, including goodwill, the Company determined that no impairment of goodwill existed at October 31, 2003, and there have been no indicators of impairment since that date. A subsequent determination that this goodwill is impaired, however, could have a significant adverse impact on the Company's results of operations or financial condition.

The changes in the carrying amounts of goodwill for the nine months ended September 30, 2004, are as follows:

	Americas	EMEA	Asia Pacific	
Balance, January 1, 2004.....	\$ 119.2	\$ 75.0	\$ 18.3	\$
Acquisitions.....	3.7	--	0.1	
Translation adjustments.....	--	(0.4)	--	
	\$ 122.9	\$ 74.6	\$ 18.4	\$

In 2004, the Company recorded goodwill of \$3.7 pertaining to its acquisition of the business and assets of Alkahn Labels, Inc. in September 2003, based on its final allocation of the purchase price to the acquired assets and liabilities.

The Company's other intangible is as follows:

	September 30, 2004	
Noncompete agreement.....	\$ 1.7	\$
Accumulated amortization.....	(0.9)	

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\$ 0.8 \$
=====

NOTE 7: ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

A summary of accounts payable and accrued liabilities is as follows:

	September 30, 2004	Dec
	-----	-----
Accounts payable.....	\$ 48.4	\$
Accrued payroll costs.....	21.4	
Accrued interest.....	1.6	
Advance service contracts.....	4.8	
Customer incentives.....	2.5	
Other accrued liabilities.....	39.8	
	-----	-----
	\$ 118.5	\$
	=====	=====

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NOTE 8: LONG-TERM DEBT

A summary of long-term debt is as follows:

	September 30, 2004	Dec
	-----	-----
6.74% Senior Notes.....	\$ 150.0	\$
Economic Development Revenue Bonds due 2011 and 2019.....	13.0	
Revolving credit.....	--	
Other.....	0.1	
	-----	-----
	\$ 163.1	\$
	=====	=====

During 2004, the Company paid off the \$27.2 balance under its revolving credit agreement outstanding at December 31, 2003.

NOTE 9: SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid for interest and income taxes is as follows:

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Interest.....	\$
Income taxes.....	\$

NOTE 10: COMPREHENSIVE INCOME

Comprehensive income for the periods presented below includes foreign currency translation items. There was no tax expense or tax benefit associated with the foreign currency translation items.

	Three Months Ended September 30,	
	2004	2003
Net income.....	\$ 10.2	\$ 3.9
Foreign currency translation adjustments.....	3.3	1.0
Comprehensive income.....	\$ 13.5	\$ 4.9

NOTE 11: EARNINGS PER SHARE

The reconciliation of basic and diluted weighted average common shares outstanding is as follows (in millions):

	Three Months Ended September 30,	
	2004	2003
Weighted average common shares (basic).....	39.6	39.0
Options.....	1.3	0.5
Adjusted weighted average common shares (diluted).....	40.9	39.5

Options to purchase 42,000 and 2,508,000 shares of common stock outstanding at September 30, 2004 and 2003, respectively, were not included in the computation of diluted earnings per share because the effect of their inclusion would be antidilutive.

NOTE 12: SEGMENT INFORMATION

The Company develops, manufactures and markets apparel identification products and bar code and pricing solutions products to customers primarily in the retail and apparel manufacturing industries. In addition, the sales of the Company's products often result in the ongoing sales of supplies, replacement parts and services. The Company's products are sold worldwide through a direct sales force, through non-exclusive manufacturers' representatives, and through international and export distributors and commission agents.

The Company has organized its operations into three geographic segments consisting of the following:

- (1) The Company's operations principally in North America and Latin America ("Americas");
- (2) Europe, the Middle East and Africa ("EMEA"); and
- (3) The Asia Pacific region ("Asia Pacific")

Each of the three geographic segments develops, manufactures and markets the Company's products and services. The results from the three geographic segments are regularly reviewed by the Company's Chief Executive Officer to make decisions about resources to be allocated to each segment and assess its performance. Information regarding the operations of the Company in different geographic segments is as follows:

	Three Months Ended September 30,		Nine Mo Sept
	2004	2003	2004
Sales to unaffiliated customers:			
Americas.....	\$ 89.5	\$ 82.6	\$ 266.1
EMEA.....	48.3	45.7	162.7
Asia Pacific.....	56.4	42.4	168.2
Total.....	\$ 194.2	\$ 170.7	\$ 597.0
Intersegment sales:			
Americas.....	\$ 15.9	\$ 12.0	\$ 45.7
EMEA.....	11.8	10.9	36.7
Asia Pacific.....	5.5	3.2	14.1
Eliminations.....	(33.2)	(26.1)	(96.5)
Total.....	\$ --	\$ --	\$ --
Income before taxes (a):			
Americas (b).....	\$ 12.3	\$ 3.8	\$ 30.3
EMEA (b).....	3.6	0.9	13.6
Asia Pacific.....	7.7	7.6	29.2
Corporate expenses (b).....	23.6	12.3	73.1
Amortization of other intangible.....	(7.6)	(4.2)	(19.6)
	(0.1)	(0.1)	(0.3)

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Operating income.....	15.9	8.0	53.2
Interest expense, net.....	(2.6)	(2.9)	(8.1)
Total.....	\$ 13.3	\$ 5.1	\$ 45.1

(a) Certain reclassifications have been made to prior periods' income before taxes to conform to the presentation used in the current period.

(b) Americas, EMEA and Asia Pacific included integration/restructuring and other costs of \$3.9, \$0.1 and \$0.1, respectively, for the three months ended September 30, 2003, and \$7.6, \$1.5 and \$0.1 for the nine months ended September 30, 2003. In addition, Corporate expenses included integration/restructuring and other costs of \$1.6 for the nine months ended September 30, 2003.

Depreciation and amortization:			
Americas.....	\$ 3.5	\$ 3.5	\$ 10.4
EMEA.....	2.4	2.3	6.7
Asia Pacific.....	1.9	1.2	5.0
	7.8	7.0	22.1
Corporate.....	0.4	1.5	1.2
Total.....	\$ 8.2	\$ 8.5	\$ 23.3

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	Three Months Ended September 30,		Nine Mo Septe
	2004	2003	2004
Capital expenditures:			
Americas.....	\$ 1.3	\$ 1.6	\$ 4.8
EMEA.....	2.5	2.1	6.1
Asia Pacific.....	6.1	4.6	14.1
	9.9	8.3	25.0
Corporate.....	--	--	0.1
Total.....	\$ 9.9	\$ 8.3	\$ 25.1

	September 30, 2004	December 31, 2003
Long-lived assets:		
Americas.....	\$ 196.5	\$ 199.9
EMEA.....	123.6	125.0
Asia Pacific.....	56.8	47.3

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	376.9	372.2
Corporate.....	4.3	5.2
	-----	-----
Total.....	\$ 381.2	\$ 377.4
	=====	=====
Total assets:		
Americas.....	\$ 303.5	\$ 313.2
EMEA.....	230.9	228.5
Asia Pacific.....	144.3	116.6
	-----	-----
	678.7	658.3
Corporate.....	69.3	56.6
	-----	-----
Total.....	\$ 748.0	\$ 714.9
	=====	=====

The following table presents sales by product:

	Three Months Ended September 30,		Nine Mo Septe
	2004	2003	2004
	-----	-----	-----
Apparel Identification Products.....	\$ 134.8	\$ 112.5	\$ 423.3
Bar Code and Pricing Solutions.....	59.4	58.2	173.7
	-----	-----	-----
Total.....	\$ 194.2	\$ 170.7	\$ 597.0
	=====	=====	=====

The Company derived sales in the US of \$66.9 and \$203.1 for the three and nine months ended September 30, 2004, respectively, and \$64.2 and \$189.5 for the three and nine months ended September 30, 2003. In addition, the Company's long-lived assets in the US as of September 30, 2004 and December 31, 2003, amounted to \$164.1 and \$167.1, respectively.

No one customer accounted for more than 10% of the Company's revenues or accounts receivable for the three and nine months ended September 30, 2004 or 2003.

NOTE 13: INTEGRATION/RESTRUCTURING AND OTHER COSTS

In 2003, the Company incurred \$20.4 of integration/restructuring and other costs. Of this amount, \$11.4 primarily pertained to: (1) the closing of several manufacturing plants in the US and the UK, areas which have experienced a migration of apparel manufacturing to the lower-production-cost countries; and (2) headcount reductions, which resulted in a reduction of 320 manufacturing positions and 160 managerial and administrative personnel primarily in the US and the UK. In addition, the Company recorded \$1.3 of integration/restructuring and other costs in connection with the severance payment made to its former Chief Executive Officer. Lastly, the Company recognized non-cash charges of \$7.7 to write off the remaining net book value of an Enterprise Resource Planning system and certain other fixed assets no longer in use.

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The following table presents the changes in accruals pertaining to the Company's restructuring and related initiatives for the nine months ended September 30, 2004:

	Beginning Balance January 1, 2004	Payments	Ending Balance September 30,
Severance.....	\$ 1.4	\$ (1.4)	\$ --
Termination of leases.....	1.1	(0.5)	0.6
	\$ 2.5	\$ (1.9)	\$ 0.6
	=====	=====	=====

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Item 2: Management's Discussion and Analysis of Financial Condition and Results of Operations for the Three and Nine Months Ended September 30, 2004

All amounts in the following discussion are stated in millions, except share and per share data.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

Management has identified the following policies and estimates as critical to the Company's business operations and the understanding of the Company's results of operations. Note that the preparation of this Quarterly Report on Form 10-Q requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the Company's financial statements, and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates and the differences could be material.

Revenue Recognition

The Company recognizes revenue from product sales at the time of shipment and includes freight billed to customers. In addition, in accordance with Staff Accounting Bulletin ("SAB") No. 104, "Revenue Recognition, revised and updated," the Company recognizes revenues from fixed price service contracts on a pro-rata basis over the life of the contract as they are generally performed evenly over the contract period. Revenues derived from other service contracts are recognized when the services are performed.

SAB No. 101, "Revenue Recognition in Financial Statements," requires that four basic criteria be met before revenue can be recognized: (1) persuasive evidence of an arrangement exists; (2) delivery has occurred or services have been rendered; (3) the fee is fixed or determinable; and (4) collectibility is reasonably assured. Determination of criteria (3) and (4) are based on management's judgments regarding the fixed nature of the fee charged for

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products delivered and services rendered and the collectibility of those fees. Should changes in conditions cause management to determine that these criteria are not met for certain future transactions, revenue recognized for a reporting period could be adversely affected.

The Company periodically enters into multiple element arrangements whereby it may provide a combination of products and services. Revenue from each element is recorded when the following conditions exist: (1) the product or service provided represents a separate earnings process; (2) the fair value of each element can be determined separately; and (3) the undelivered elements are not essential to the functionality of a delivered element. If the conditions for each element described above do not exist, revenue is recognized as earned using revenue recognition principles applicable to those elements as if it were one arrangement, generally on a straight-line basis. In November 2002, the Emerging Issues Task Force ("EITF") reached a consensus on EITF No. 00-21, "Accounting for Revenue Arrangements with Multiple Element Deliverables." EITF No. 00-21 addresses how to account for arrangements that may involve the delivery or performance of multiple products, services and/or rights to use assets. Revenue arrangements with multiple deliverables should be divided into separate units of accounting if the deliverables in the arrangement meet certain criteria. Arrangement consideration should be allocated among the separate units of accounting based on their relative fair values.

Sales Returns and Allowances

Management must make estimates of potential future product returns, billing adjustments and allowances related to current period product revenues. In establishing a provision for sales returns and allowances, management relies principally on the Company's history of product return rates as well as customer service billing adjustments and allowances, each of which is regularly analyzed. Management also considers (1) current economic trends, (2) changes in customer demand for the Company's products and (3) acceptance of the Company's products in the marketplace when evaluating the adequacy of the Company's provision for sales returns and allowances. Historically, the Company has not experienced a significant change in its product return rates resulting from these factors and its product return rates have been relatively stable. For the three and nine months ended September 30, 2004 and 2003, the provision for sales returns and allowances accounted for as a reduction to gross sales was not material.

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Allowance for Doubtful Accounts

Management is required to make judgments, based on established aging policy, historical experience and future expectations, as to the collectibility of the Company's accounts receivable and establish an allowance for doubtful accounts. The allowance for doubtful accounts is used to reduce gross trade receivables to their net realizable value. When evaluating the adequacy of the allowance for doubtful accounts, management specifically analyzes customer specific allowances, amounts based upon an aging schedule, historical bad debt experience, customer concentrations, customer creditworthiness and current trends. The Company's accounts receivable balances were \$125.8, net of allowances of \$10.9, at September 30, 2004, and \$127.0, net of allowances of \$10.0, at December 31, 2003.

Inventories

Inventories are stated at the lower of cost or market value and are

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categorized as raw materials, work-in-process or finished goods. The value of inventories determined using the last-in, first-out method was \$13.0 and \$14.3 as of September 30, 2004 and December 31, 2003, respectively. The value of all other inventories determined using the first-in, first-out method was \$87.6 and \$79.8 as of September 30, 2004 and December 31, 2003, respectively.

On an ongoing basis, the Company evaluates the composition of its inventories and the adequacy of its reserve for damaged, obsolete, excess and slow-turning products. Market value of aged inventory is determined based on historical sales trends, current market conditions, changes in customer demand, acceptance of the Company's products, and current sales activities for this type of inventory.

Goodwill

The Company evaluates goodwill for impairment annually using a fair value approach, at the reporting unit level. In addition, the Company evaluates goodwill for impairment if a significant event occurs or circumstances change, which could result in the carrying value of a reporting unit exceeding its fair value. Factors the Company considers important which could indicate impairment include the following: (1) significant under-performance relative to historical or projected future operating results; (2) significant changes in the manner of the Company's use of the acquired assets or the strategy for the Company's overall business; (3) significant negative industry or economic trends; (4) significant decline in the Company's stock price for a sustained period; and (5) the Company's market capitalization relative to net book value. The Company assesses the existence of impairment by comparing the implied fair values of its reporting units with their respective carrying amounts, including goodwill. During the fourth quarter of 2003, the Company completed its annual goodwill impairment assessment, and based on the results, the Company determined that no impairment of goodwill existed at October 31, 2003, and there have been no indicators of impairment since that date. A subsequent determination that this goodwill is impaired, however, could have a significant adverse impact on the Company's results of operations or financial condition.

Impairment of Long-Lived Assets

The Company periodically reviews its long-lived assets for impairment by comparing the carrying values of the assets with their estimated future undiscounted cash flows. If it is determined that an impairment loss has occurred, the loss is recognized during that period. The impairment loss is calculated as the difference between asset carrying values and fair value as determined by prices of similar items and other valuation techniques (discounted cash flow analysis), giving consideration to recent operating performance and pricing trends. There were no significant impairment losses related to long-lived assets for the three and nine months ended September 30, 2004 and 2003.

Accounting for Income Taxes

As part of the process of preparing the consolidated financial statements, management is required to estimate the income taxes in each jurisdiction in which the Company operates. This process involves estimating the actual current tax liabilities together with assessing temporary differences resulting from the differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included in the consolidated balance sheet. Management must then assess the likelihood that the deferred tax assets will be recovered, and to the extent that management believes that recovery is not more than likely, the Company must establish a valuation allowance. If a valuation allowance is established or increased during any period, the Company must include this amount as an expense within the tax provision in the consolidated statement of income. Significant management

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judgment is required in determining the Company's provision for income taxes,

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deferred tax assets and liabilities and any valuation allowance recognized against net deferred assets. The valuation allowance is based on management's estimates of the taxable income in the jurisdictions in which the Company operates and the period over which the deferred tax assets will be recoverable.

Deferred taxes are not provided on the portion of undistributed earnings of non-US subsidiaries, which is considered to be permanently reinvested. In the event that management changes its consideration on permanently reinvesting the undistributed earnings of its non-US subsidiaries, circumstances change in future periods, or there is a change in accounting principles generally accepted in the US, the Company may need to establish an additional income tax provision for the US and other taxes arising from repatriation, which could materially impact its results of operations.

RESULTS OF OPERATIONS

Overview

In order to better serve a customer base consisting predominantly of retailers and apparel manufacturers, the Company has organized its operations into three geographic segments consisting of the following:

- (1) The Company's operations principally in North America and Latin America ("Americas");
- (2) Europe, the Middle East and Africa ("EMEA"); and
- (3) The Asia Pacific region ("Asia Pacific")

The Company's results of operations for the three and nine months ended September 30, 2004 and 2003, in dollars and as a percent of sales are presented below:

	Three Months Ended				Ni	
	September 30, 2004		September 30, 2003		September 30, 2002	
Sales.....	\$ 194.2	100.0%	\$ 170.7	100.0%	\$ 597.0	100.0%
Cost of sales.....	119.1	61.3	106.0	62.1	365.6	61.3
Gross profit.....	75.1	38.7	64.7	37.9	231.4	38.7
Selling, general and administrative expenses.....	59.2	30.5	52.6	30.8	178.2	29.7
Integration/restructuring and other costs.....	--	--	4.1	2.4	--	--
Operating income.....	15.9	8.2	8.0	4.7	53.2	9.1
Interest expense, net.....	2.6	1.4	2.9	1.7	8.1	1.4
Income before taxes.....	13.3	6.8	5.1	3.0	45.1	7.7
Taxes on income.....	3.1	1.5	1.2	0.7	10.4	1.7
Net income.....	\$ 10.2	5.3%	\$ 3.9	2.3%	\$ 34.7	5.8%

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Building upon strong momentum, which began in the first quarter of 2004, the Company posted better-than-expected results of operations in the third quarter. For the three months ended September 30, 2004, the Company's sales increased \$23.5, or 13.8%, to \$194.2, compared with \$170.7 for the three months ended September 30, 2003. Of the total increase, \$16.1 was attributable to organic sales growth, which excludes acquisitions and the impact of changes in foreign exchange rates. These comparable year-over-year results reflect the combination of increased customer demand across the entire range of the Company's products, strong growth in the Company's core Asia Pacific operations and increased penetration of the Company's operations in the emerging markets of Latin America, EMEA and Asia Pacific. In addition, \$3.6 of the increase was attributable to the September 2003 acquisition of Alkahn Labels, Inc. ("Alkahn") and \$3.8 of the increase was attributable to the favorable impact of changes in foreign exchange rates. For the nine months ended September 30, 2004, the Company's sales increased \$79.7, or 15.4%, to \$597.0, compared with \$517.3 for the nine months ended September 30, 2003. The sales increase was attributable to organic sales growth of \$42.5, incremental sales contributed by the Alkahn acquisition of \$22.3, and the favorable impact of changes in foreign exchange rates of \$14.9.

Management believes that the Company was able to deliver sales growth over the prior year period through a more concentrated emphasis on thinking and executing as an unified global operating company, maintaining balance and diversification throughout its markets, seeking leadership in niche markets and continuing to focus on providing customers with value-added products and solutions, outstanding service, consistent quality and on-time deliveries. In addition, with the Alkahn acquisition, the Company continued to successfully execute on its longstanding strategy of striving for long-term sustainable

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growth through acquisitions. Management believes that the Company's investments in new product development, upgraded manufacturing equipment, new technology, innovative programs and sales and marketing initiatives have positioned the Company to continue to compete successfully.

Operating income was \$15.9 and \$53.2 for the three and nine months ended September 30, 2004, respectively, compared with \$8.0 and \$24.4 for the three and nine months ended September 30, 2003. As a percent of sales, operating income was 8.2% and 9.0% for the three and nine months ended September 30, 2004, respectively, and 4.7% and 4.8% for the three and nine months ended September 30, 2003. The operating results for the three and nine months ended September 30, 2003 included integration/restructuring and other costs of \$4.1 and \$10.8, respectively.

Sales

The following table presents sales by geographic operating segment:

	Three Months Ended	Nine
	-----	-----
	September 30, 2004	September 30, 2003
	September 30, 2004	September 30, 2003

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Americas.....	\$ 89.5	46.1%	\$ 82.6	48.4%	\$ 266.1	44
EMEA.....	48.3	24.9	45.7	26.8	162.7	27
Asia Pacific.....	56.4	29.0	42.4	24.8	168.2	28
Total.....	\$ 194.2	100.0%	\$ 170.7	100.0%	\$ 597.0	100

Americas sales include sales delivered through the Company's operations principally in North America and Latin America. Sales increased \$6.9, or 8.4%, to \$89.5 for the three months ended September 30, 2004, compared with \$82.6 for the three months ended September 30, 2003. The increase was attributable to organic sales growth of \$5.2, the impact of the Alkahn acquisition of \$1.5 and the favorable impact of changes in foreign exchange rates of \$0.2. For the nine months ended September 30, 2004, sales increased \$21.7, or 8.9%, to \$266.1, compared with \$244.4 for the nine months ended September 30, 2003. The increase was attributable to organic sales growth of \$6.9, the impact of the Alkahn acquisition of \$13.5 and the favorable impact of changes in foreign exchange rates of \$1.3. Management notes that organic sales gains in apparel identification products were largely driven by the Company's operations in Latin America and to a lesser degree by an improved economic environment in the US. The economic improvement also benefited sales of bar code and pricing solutions products. In addition, many of the Company's customers continued to move their production outside the US where they have realized labor cost and operating performance efficiencies. This has resulted in a shift in sales mix primarily to Latin America and the Asia Pacific region.

EMEA's sales, which include sales delivered through the Company's operations in 12 European countries, the Middle East and Africa, increased \$2.6, or 5.7%, to \$48.3 for the three months ended September 30, 2004, compared with \$45.7 for the three months ended September 30, 2003. The increase was attributable to the favorable impact of changes in foreign exchange rates of \$3.6, offset by a \$1.0 decline in organic sales. For the nine months ended September 30, 2004, sales increased \$17.9, or 12.4%, to \$162.7, compared with \$144.8 for the nine months ended September 30, 2003. The increase was attributable to organic sales growth of \$4.3 and the favorable impact of changes in foreign exchange rates of \$13.6. Management notes that the Company's operations in Turkey, Italy and Norway posted solid volume gains. In addition, the Company's recently established operations in Romania, Morocco, Mauritius, Portugal and United Arab Emirates contributed to EMEA's sales growth.

Asia Pacific consists of the Company's operations in Hong Kong, China, Singapore, Sri Lanka, Korea, Bangladesh, Indonesia, Vietnam and India. Sales increased \$14.0, or 33.0%, to \$56.4 for the three months ended September 30, 2004, compared with \$42.4 for the three months ended September 30, 2003. The increase was attributable to organic sales growth of \$11.9 and the impact of the Alkahn acquisition of \$2.1. For the nine months ended September 30, 2004, sales increased \$40.1, or 31.3%, to \$168.2, compared with \$128.1 for the nine months ended September 30, 2003. The increase was attributable to organic sales growth of \$31.3 and the impact of the Alkahn acquisition of \$8.8. The Company's operations in this region have significantly benefited from the steady and continued migration of many of the Company's customers who have moved their production outside the US and Western Europe to minimize labor cost and maximize operating performance efficiencies. In addition, the Company believes that sales increases in Asia Pacific have resulted from strong gains in market share.

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Gross Profit

Gross profit, as a percent of sales, increased to 38.7% and 38.8% for the three and nine months ended September 30, 2004, compared with 37.9% for the three and nine months ended September 30, 2003. The higher gross margin was directly attributable to the Company's efforts to reduce manufacturing costs and improving operating efficiencies in existing facilities. In addition, gross margin continues to benefit as a result of the Company's consolidating capacity in certain of its production sites in the US and the UK. Since 2001, management's ongoing strategy has included implementing process improvements to reduce costs in all of the Company's manufacturing facilities, efficiently re-deploying assets to manage production capacity and expanding production in new and emerging markets in order to maximize labor and production efficiencies.

Selling, General and Administrative ("SG&A") Expenses

SG&A expenses were \$59.2 and \$178.2 for the three and nine months ended September 30, 2004, compared with \$52.6 and \$160.6 for the three and nine months ended September 30, 2003. As a percent of sales, SG&A expenses were 30.5% and 29.8% for the three and nine months ended September 30, 2004, compared with 30.8% and 31.0% for the three and nine months ended September 30, 2003. The increases in spending were primarily attributable to (i) sales- and growth-related expenses, including expenditures made in connection with the development and innovation of solutions for Radio Frequency Identification (RFID) supply-chain applications; (ii) incremental costs incurred as a result of regulatory requirements under the Sarbanes-Oxley Act of 2002; (iii) the negative impact of changes in foreign exchange rates; and (iv) the acquisition of Alkahn. These were partially offset by the benefits captured through a series of cost reduction initiatives in 2003 and continued fixed cost containment.

Integration/Restructuring and Other Costs

The Company did not incur any integration/restructuring charges for the nine months ended September 30, 2004, and does not expect to incur any integration/restructuring charges during the remainder of 2004.

For the nine months ended September 30, 2003, the Company recognized a pre-tax charge of \$10.8 in connection with the consolidation of certain operations, headcount reductions, a severance payment to the Company's former Chief Executive Officer, and a write-off of an Enterprise Resource Planning system no longer in use.

Operating Income

Operating income was \$15.9 and \$53.2 for the three and nine months ended September 30, 2004, compared with \$8.0 and \$24.4 for the three and nine months ended September 30, 2003. As a percent of sales, operating income was 8.2% and 9.0% for the three and nine months ended September 30, 2004, and 4.7% and 4.8% for the three and nine months ended September 30, 2003. The operating results for the three and nine months ended September 30, 2003 included integration/restructuring and other costs of \$4.1 and \$10.8.

On a reportable segment basis, exclusive of corporate expenses and amortization of other intangible, operating income, as a percent of sales, was as follows:

Three Months Ended
September 30,

Nine Mo
Septe

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	2004	2003	2004
Americas.....	13.7%	4.6%	11.4%
EMEA.....	7.5	2.0	8.4
Asia Pacific.....	13.7	17.9	17.4

For the three and nine months ended September 30, 2004, the decreases in Asia Pacific's operating income, as a percent of sales, resulted from the increased charge-backs of certain global program development costs by the Americas and EMEA, incurred on behalf of the Asia Pacific region.

In addition, Americas, EMEA and Asia Pacific included the integration/restructuring and other costs, as a percent of sales, of 4.7%, 0.2% and 0.2% for the three months ended September 30, 2003, and 3.1%, 1.0% and 0.1% for the nine months ended September 30, 2003.

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Interest Expense, Net

Interest expense, net of interest income on invested cash, was \$2.6 and \$8.1 for the three and nine months ended September 30, 2004, compared with \$2.9 and \$8.4 for the three and nine months ended September 30, 2003. The decrease was primarily attributable to lower average borrowings and higher interest income on invested cash, offset by higher interest expense on outstanding bank overdraft amounts.

Taxes on Income

The effective tax rate for each of the nine months ended September 30, 2004 and 2003 was 23%. The rate is based on management's estimates of the geographic mix of projected pre-tax income, the timing and amounts of foreign dividends and state and local taxes. In the event that actual results differ from these estimates or these estimates change in future periods, the Company may need to adjust the rate, which could materially impact its results of operations.

Liquidity and Capital Resources

The following table presents summary cash flow information for the periods indicated:

	Nine Months Ended September 30,	
	2004	2003
Net cash provided by operating activities.....	\$ 65.9	\$ 29.3
Net cash used in investing activities.....	(23.3)	(52.1)
Net cash (used in)/provided by financing activities...	(22.3)	34.4
Total change in cash and cash equivalents (a)	\$ 20.3	\$ 11.6

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 (a) Before the effect of exchange rate changes on cash flows.

Operating Activities

Cash provided by operating activities is a primary source of funds to finance the Company's operating needs and growth opportunities. Effective August 4, 2004, at the Company's request, its revolving credit agreement ("Credit Agreement") was amended to reduce the total commitment under the facility from \$150 to \$50. In the event of an additional financing need, the Company believes that the Credit Agreement can be amended to increase the total commitment up to \$150. The Credit Agreement is available to provide additional liquidity for capital and other specific-purpose expenditures. Net cash provided by operating activities was \$65.9 for the nine months ended September 30, 2004, compared with \$29.3 for the nine months ended September 30, 2003. Management believes that the Company will continue to generate cash from its operating activities for the foreseeable future supplemented by availability under its Credit Agreement to fund its working capital needs, strengthen its balance sheet and support its growth strategy of expanding its geographic reach and product offerings.

Working capital and the corresponding current ratio were \$202.4 and 2.4:1 and \$194.1 and 2.6:1 at September 30, 2004 and December 31, 2003, respectively. The increase in working capital primarily resulted from increases in cash and cash equivalents, inventories and other current assets, offset by increases in accounts payable, accrued liabilities, and accrued taxes on income.

Investing Activities

For the nine months ended September 30, 2004 and 2003, the Company incurred \$25.1 and \$23.9, respectively, of capital expenditures to acquire production machinery, to install system upgrades and to continue with its growth and expansion of Company operations in the emerging markets of Latin America, EMEA and Asia Pacific. In addition, during 2004, the Company received proceeds of \$1.0 from the sale of its 10% equity interest in Disc Graphics, Inc., a diversified manufacturer and printer of specialty paperboard packaging.

During the third quarter of 2003, the Company acquired the business and assets of Alkahn, a manufacturer of woven labels, for \$25.0.

Financing Activities

The components of total capital as of September 30, 2004 and December 31, 2003, respectively, are presented below:

	September 30, 2004	D

Due to banks.....	\$ 4.9	
Long-term debt.....	163.1	

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Total debt.....	168.0
Shareholders' equity.....	414.2

Total capital.....	\$ 582.2
	=====
Total debt as a percent of total capital.....	28.9%
	=====

Management believes that for the foreseeable future, borrowings available under the Company's Credit Agreement provide sufficient liquidity to supplement the Company's operating cash flow. For the nine months ended September 30, 2004 and 2003, net (repayments)/ borrowings of the Company's outstanding debt were \$(26.5) and \$36.0, respectively.

The Company has a stock repurchase plan with an authorization from its Board of Directors to use up to \$150 for the repurchase of its shares. The shares may be purchased from time to time at prevailing prices in the open-market or by block purchases. The Company did not repurchase any shares for the nine months ended September 30, 2004. For the nine months ended September 30, 2003, the Company repurchased 469,000 shares for an aggregate price of \$5.1, or \$10.80 per share. Since the inception of the stock repurchase program, the Company has repurchased 12,293,000 of its shares for an aggregate price of \$122.0, or an average of \$9.92 per share. The Company immediately retired the repurchased shares. As of September 30, 2004, the Company had \$28.0 available under its \$150 stock repurchase program authorization. The Company may continue to repurchase its shares under the existing authorization, depending on market conditions and cash availability. The Company believes that funds from future operating cash flows and funds available under its Credit Agreement are adequate to allow it to continue to repurchase its shares under the stock repurchase plan.

The Company has various stock-based compensation plans, including two stock option plans, a long-term incentive plan, and an employee stock purchase plan. For the nine months ended September 30, 2004 and 2003, the Company received proceeds of \$4.2 and \$3.5, respectively, from common stock issued under its employee stock option and stock purchase plans.

In the fourth quarter of 2003, the Company reconsidered its accounting and reporting matters related to its obligations to purchase redeemable common shares under a Stock Repurchase Agreement (the "Repurchase Agreement"), dated July 11, 2001 with its Chairman and Chief Executive Officer ("Chairman"). In accordance with Rule 5-02.28 of Regulation S-X, or Accounting Series Release No. 268, "Redeemable Preferred Stocks," (issued by the Securities and Exchange Commission ("SEC") on July 27, 1979), as interpreted by EITF Topic D-98, "Classification and Measurement of Redeemable Securities," (issued by the Financial Accounting Standards Board on July 19, 2001), securities that are redeemable for cash or other assets must be classified outside of shareholders' equity, if they are redeemable at the option of the holder, as were the redeemable common shares owned by the Chairman. The Company concluded that Rule 5-02.28, as interpreted by EITF Topic D-98, applied to the redeemable common shares because the redemption features were not solely within its control. While Rule 5-02.28 specifically addressed redeemable preferred stocks, EITF Topic D-98 makes it clear that redeemable preferred stock is analogous to other equity instruments, including common shares. Accordingly, the Company determined that the redeemable common shares should have been classified as temporary equity in its financial statements for periods ended after July 11, 2001 until the Repurchase Agreement was terminated on November 17, 2003. However, the Company was unable to have the reclassification adjustments pertaining to its 2001 financial statements audited. Consequently, the Company was unable to include three years of audited financial information in its 2003 Annual Report on Form 10-K as required under Rules 3-01 and 3-02 of Regulation S-X.

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Because the Company does not have three years of audited financial information on file with the SEC, the Company's reports filed under the Securities Exchange Act of 1934 (the "Exchange Act") are not in full compliance with the requirements of the Exchange Act. As a result, the effectiveness of the Company's Registration Statements on Form S-8 (Nos. 333-38923, 333-43694, and 333-43696) have been suspended, and the Company is unable to issue shares under its employee stock purchase and stock option plans. Additionally, during any period when the Company is not current in its SEC reports, neither affiliates of the Company nor any person that purchased shares from the Company in a private offering during the preceding two years will be able to sell their shares in public markets pursuant to Rule 144 under the Securities Act of 1933. The Company expects that it will again have three years of audited financial information on file with the SEC and its Exchange Act reports will comply with SEC requirements when the Company files its 2004 audited financial statements with its 2004 Annual Report on Form 10-K.

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Financing Arrangement - Credit Agreement

In September 2002, the Company entered into a three-year, \$150 Credit Agreement with a group of five domestic and international banks. Effective August 4, 2004, at the Company's request, the Credit Agreement was amended to reduce the total commitment under the facility from \$150 to \$50. The Company intends to enter into a new financing arrangement on or prior to the expiration of the Credit Agreement in September 2005, to finance the Company's operating needs and growth opportunities.

Under the Credit Agreement, the Company pays a facility fee determined by reference to the ratio of debt to earnings before interest, taxes, depreciation and amortization ("EBITDA"). The applicable percentage for the facility fee at September 30, 2004 was 0.275%. Borrowings under the Credit Agreement bear interest at rates referenced to the London Interbank Offered Rate with applicable margins varying in accordance with the Company's attainment of specified debt to EBITDA thresholds or, at the Company's option, rates competitively bid among the participating banks or the Prime Rate, as defined (4.75% at September 30, 2004 and 4.00% at December 31, 2003), and are guaranteed by certain domestic subsidiaries of the Company.

The Credit Agreement, among other things, limits the Company's ability to change the nature of its businesses, incur indebtedness, create liens, sell assets, engage in mergers and make investments in certain subsidiaries. In addition, it contains certain customary events of default, which generally give the banks the right to accelerate payments of outstanding debt. These events include:

- o Failure to maintain required financial covenant ratios, as described below;
- o Failure to make a payment of principal, interest or fees within two days of its due date;
- o Default, beyond any applicable grace period, on any aggregate indebtedness of the Company exceeding \$0.5;
- o Judgment or order involving a liability in excess of \$0.5; and
- o Occurrence of certain events constituting a change of control of the Company.

Additionally, the Company must maintain at all times an excess of consolidated total assets over total liabilities of not less than the sum of \$274 plus 35% of consolidated net income for the period after July 1, 2002 plus

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100% of the net cash proceeds received by the Company from the sale or issuance of its common stock on and after July 1, 2002. The Company's maximum allowable debt to EBITDA ratio, as defined, is as follows:

Prior to January 1, 2004.....	3.0 to 1
From January 1, 2004 to September 30, 2004.....	3.5 to 1
After September 30, 2004.....	3.0 to 1

The Company's minimum allowable fixed charge coverage ratio, as defined, is as follows:

Prior to October 1, 2003.....	1.5 to 1
From October 1, 2003 to September 30, 2004.....	1.25 to 1
After September 30, 2004.....	1.5 to 1

The Credit Agreement defines debt as including all obligations to purchase, redeem, retire or otherwise make any payment in respect of any capital stock. Accordingly, the Company should have reflected in its quarterly debt covenant compliance reports provided to its banks and certain other lending institutions its obligation to purchase common stock from its Chairman under the July 11, 2001 Repurchase Agreement. Since the obligation had been omitted from the Company's compliance reports, the Company was in technical default under the terms of the Credit Agreement. The Company obtained permanent waivers for this technical default from the lenders during the first quarter of 2004. As the Repurchase Agreement was terminated on November 17, 2003, the Company no longer has the obligation to purchase or redeem any of its common stock.

The Company is in compliance with all debt covenants. The Company discloses the details of the compliance calculation to its banks and certain other lending institutions in a timely manner.

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Off Balance Sheet Arrangements

The Company has no material transactions, arrangements, obligations (including contingent obligations) or other relationships with unconsolidated entities or other persons that have or are reasonably likely to have a material current or future impact on its financial condition, changes in financial condition, results of operations, liquidity, capital expenditures, capital resources or significant components of revenues or expenses.

Market Risk

In the normal course of business, the Company is exposed to foreign currency exchange rate and interest rate risks that could impact its results of operations.

The Company at times reduces its market risk exposures by creating offsetting positions through the use of derivative financial instruments. All of the Company's derivatives have high correlation with the underlying exposures. Accordingly, changes in fair value of derivatives are expected to be offset by changes in value of the underlying exposures. The Company does not use derivative financial instruments for trading purposes.

The Company manages a foreign currency hedging program to hedge against fluctuations in foreign currency-denominated trade liabilities by periodically entering into forward foreign exchange contracts. The aggregate notional value

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of forward foreign exchange contracts the Company entered into amounted to \$29 and \$15 for the three months ended September 30, 2004 and 2003, respectively, and \$94 and \$41 for the nine months ended September 30, 2004 and 2003.

The following table summarizes as of September 30, 2004, the Company's forward foreign exchange contracts by currency. All of the Company's forward foreign exchange contracts mature within a year. Contract amounts are representative of the expected payments to be made under these instruments:

	Contract Amounts (in thousands)		
	Receive		
Contracts to receive US\$/pay Euro ("EUR").....	US\$	347	(EUR)
Contract to receive US\$/pay British Pounds ("GBP").....	US\$	5,359	(GBP)
Contract to receive US\$/pay Moroccan Dirham ("MAD").....	US\$	136	(MAD)
Contracts to receive GBP/pay US\$.....	(GBP)	90	US\$
Contracts to receive GBP/pay EUR.....	(GBP)	313	(EUR)
Contract to receive GBP/pay MAD.....	(GBP)	611	(MAD)
Contracts to receive EUR/pay US\$.....	(EUR)	1,025	US\$
Contract to receive EUR/pay MAD.....	(EUR)	330	(MAD)
Contract to receive HK\$/pay EUR.....	(HK\$)	709	(EUR)

A 10% change in interest rates affecting the Company's floating rate debt instruments would have an immaterial impact on the Company's pre-tax earnings and cash flows over the next fiscal year. Such a move in interest rates would have no effect on the fair value of the Company's floating rate debt instruments.

The Company sells its products worldwide and a substantial portion of its net sales, cost of sales and operating expenses are denominated in foreign currencies. This exposes the Company to risks associated with changes in foreign currency exchange rates that can adversely impact revenues, net income and cash flow. In addition, the Company is potentially subject to concentrations of credit risk, principally in accounts receivable. The Company performs ongoing credit evaluations of its customers and generally does not require collateral. The Company's major customers are retailers and global apparel manufacturers that have historically paid their balances with the Company.

There were no significant changes in the Company's exposure to market risk for the three and nine months ended September 30, 2004 and 2003.

Cautionary Statement pursuant to "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995

Except for historical information, the Company's reports to the SEC on Form 10-K, Form 10-Q and Form 8-K and periodic press releases, as well as other public documents and statements, contain "forward-looking statements" concerning the Company's objectives and expectations with respect to gross profit, expenses, operating performance, capital expenditures and cash flows. The Company's success in achieving the objectives and expectations is subject to

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risks and uncertainties that could cause actual results to differ materially from those expressed or implied by the statements. Among others the risks and uncertainties include:

- o Worldwide economic and other business conditions that could affect demand for the Company's products in the US or international markets;
- o Rate of migration of garment manufacturing industry moving from the US and Western Europe;
- o The mix of products sold and the profit margins thereon;
- o Order cancellation or a reduction in orders from customers;
- o Competitive product offerings and pricing actions;
- o The availability and pricing of key raw materials;
- o The level of manufacturing productivity; and
- o Dependence on key members of management.

Additionally, the Company's forward-looking statements are predicated upon the following assumptions, among others, that are specific to the Company and/or the markets in which it operates:

- o There are no substantial adverse changes in the exchange relationship between the British Pound or the Euro and the US Dollar;
- o Low or negative economic growth, particularly in the US, the UK or Europe, will not occur and affect consumer spending in those countries;
- o There will continue to be adequate supply of the Company's raw materials and components at economic terms;
- o The Company's new Enterprise Resource Planning systems can be successfully integrated into the Company's operations;
- o There are no changes that would require the Company to establish an additional income tax provision for the US and other taxes arising from repatriation of the undistributed earnings of non-US subsidiaries;
- o The Company can continue to expand its manufacturing and distribution capacity in developing markets; and
- o There are no substantial adverse changes in the political climates of developing and other countries in which the Company has operations and countries in which the Company will endeavor to establish operations in concert with its major customers' migrations to lower-production-cost countries.

Readers are cautioned not to place undue reliance on forward-looking statements. The Company undertakes no obligation to republish or revise forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrences of unanticipated events.

Item 3: Quantitative and Qualitative Disclosure About Market Risk

The information called for by this item is set forth under the heading "Market Risk" in Management's Discussion and Analysis of Financial Condition and Results of Operations contained in Item 2 above, which information is hereby incorporated by reference.

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Item 4: Controls and Procedures

Under the supervision and with the participation of the Company's management, including its Chief Executive Officer and Principal Financial Officer, the Company conducted an evaluation of the effectiveness of the design and operation of its disclosure controls and procedures (as defined in Rules

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13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934) as of the end of the period covered by this report (the "Evaluation Date"). Based on this evaluation, the Company's Chief Executive Officer and Principal Financial Officer concluded as of the Evaluation Date that its disclosure controls and procedures were effective such that the information relating to the Company required to be disclosed in its SEC reports (i) is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms, and (ii) is accumulated and communicated to the Company's management, including its Chief Executive Officer and Principal Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

PART II OTHER INFORMATION

Item 6: Exhibits

- Exhibit 10.1 Employment Agreement, dated as of October 1, 2004, between Paxar Corporation and Arthur Hershaft.

- Exhibit 31.1 Certification of the Chief Executive Officer required by Rule 13a-14(a) or Rule 15d-14(a).

- Exhibit 31.2 Certification of the Principal Financial Officer required by Rule 13a-14(a) or Rule 15d-14(a).

- Exhibit 32.1 Certification of the Chief Executive Officer required by Rule 13a-14(b) or 18 U.S.C. 1350.

- Exhibit 32.2 Certification of the Principal Financial Officer required by Rule 13a-14(b) or 18 U.S.C. 1350.

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PAXAR CORPORATION AND SUBSIDIARIES

SIGNATURE

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

Paxar Corporation

Registrant

By: /s/ Larry M. Segall

Vice President and Controller
(Principal Financial Officer)

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November 5, 2004

Date

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