MYERS INDUSTRIES INC
Form 10-Q
August 05, 2013
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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
Form 10-Q
þ Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended June 30, 2013
OR
o 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 1-8524
Myers Industries, Inc.
(Exact name of registrant as specified in its charter)

Ohio	34-0778636
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
1293 South Main Street	
Akron, Ohio	44301
(Address of principal executive offices)	(Zip code)

(330) 253-5592
(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, and (2) has been subject to such filing requirements for the past 90 days. Yes þ No o.
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes þ No o
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "large accelerated filer," "accelerated filer," and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):
Large accelerated filer o Accelerated filer þ Non-accelerated filer o Smaller reporting company o
Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ.
Indicate the number of shares outstanding of each of the issuer's classes of common stock, as of the latest practicable date.

Class	Outstanding as of August 1, 2013
Common Stock, without par value	33,635,816 shares

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Part I — Financial Information
Item 1. Financial Statements
Myers Industries, Inc. and Subsidiaries
Condensed Consolidated Statements of Income (Unaudited)
(Dollars in thousands, except per share data)

	For the Three Months Ended		For the Six Months Ended	
	June 30, 2013	June 30, 2012	June 30, 2013	June 30, 2012
Net sales	$204,024	$181,101	$419,004	$379,890
Cost of sales	148,255	133,737	304,917	274,528
Gross profit	55,769	47,364	114,087	105,362
Selling, general and administrative expenses	42,650	37,372	87,724	78,253
Operating income	13,119	9,992	26,363	27,109
Interest expense, net	1,116	1,054	2,208	2,135
Income before income taxes	12,003	8,938	24,155	24,974
Income tax expense	3,691	3,280	7,960	9,331
Net income	$8,312	$5,658	$16,195	$15,643
Income per common share:				
Basic	$0.25	$0.17	$0.48	$0.47
Diluted	$0.25	$0.17	$0.48	$0.46
Dividends declared per share	$0.09	$0.08	$0.18	$0.16

See notes to unaudited condensed consolidated financial statements.

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Myers Industries, Inc. and Subsidiaries
Consolidated Statements of Comprehensive Income (Unaudited)
(Dollars in thousands)

	For the Three Months Ended June 30, 2013	For the Three Months Ended June 30, 2012	For The Six Months Ended June 30, 2013	For The Six Months Ended June 30, 2012
Net income	$8,312	$5,658	$16,195	$15,643
Other comprehensive income (loss), net of tax:				
Foreign currency translation adjustment	(4,994)	(612)	(5,845)	773
Pension liability	—	—	(75)	632
Total other comprehensive income (loss), net of tax	(4,994)	(612)	(5,920)	1,405
Comprehensive income	$3,318	$5,046	$10,275	$17,048

See notes to unaudited condensed consolidated financial statements.

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Myers Industries, Inc. and Subsidiaries
Condensed Consolidated Statements of Financial Position
(Dollars in thousands)

Assets	June 30, 2013 (Unaudited)	December 31, 2012
Current Assets		
Cash	$22,258	$3,948
Accounts receivable-less allowances of $3,310 and $3,255, respectively	108,518	115,508
Inventories		
Finished and in-process products	73,794	72,899
Raw materials and supplies	32,321	34,603
	106,115	107,502
Prepaid expenses	9,832	9,033
Deferred income taxes	2,191	3,605
Total Current Assets	248,914	239,596
Other Assets		
Goodwill	60,285	61,056
Patents and other intangible assets	23,379	25,839
Other	8,138	7,882
	91,802	94,777
Property, Plant and Equipment, at Cost		
Land	4,438	4,438
Buildings and leasehold improvements	57,156	57,058
Machinery and equipment	448,970	445,789
	510,564	507,285
Less allowances for depreciation and amortization	(368,309)	(356,802)
Property, plant and equipment, net	142,255	150,483
Total Assets	$482,971	$484,856

See notes to unaudited condensed consolidated financial statements.

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Myers Industries, Inc. and Subsidiaries
Condensed Consolidated Statements of Financial Position
(Dollars in thousands, except share data)

Liabilities and Shareholders' Equity	June 30, 2013 (Unaudited)	December 31, 2012
Current Liabilities		
Accounts payable	$64,717	$72,417
Accrued expenses		
Employee compensation	15,772	18,885
Income taxes	—	1,090
Taxes, other than income taxes	3,061	2,606
Accrued interest	241	240
Other	20,295	19,239
Total Current Liabilities	104,086	114,477
Long-term debt	95,988	92,814
Other liabilities	17,911	17,865
Deferred income taxes	29,966	29,678
Shareholders' Equity		
Serial Preferred Shares (authorized 1,000,000 shares; none issued and outstanding)	—	—
Common Shares, without par value (authorized 60,000,000 shares; outstanding 33,637,573 and 33,480,189; net of treasury shares of 4,170,559 and 4,356,160, respectively)	20,361	20,316
Additional paid-in capital	267,236	266,419
Accumulated other comprehensive income	4,723	10,643
Retained deficit	(57,300)	(67,356)
Total Shareholders' Equity	235,020	230,022
Total Liabilities and Shareholders' Equity	$482,971	$484,856

See notes to unaudited condensed consolidated financial statements.

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Myers Industries, Inc. and Subsidiaries
Condensed Consolidated Statement of Shareholders' Equity (Unaudited)
(Dollars in thousands, except per share data)

	Common Stock	Additional Paid-In Capital	Accumulative Other Comprehensive Income	Retained Income (Deficit)
Balance at January 1, 2013	$20,316	$266,419	$10,643	$(67,356)
Net income	—	—	—	16,195
Other comprehensive income (loss)	—	—	(5,920)	—
Shares repurchased for employee taxes on equity awards	—	(684)	—	—
Purchases for treasury	(145)	(3,153)	—	—
Common stock issued	190	3,072	—	—
Other	—	50	—	—
Stock based compensation	—	1,532	—	—
Dividends declared - $.18 per share	—	—	—	(6,139)
Balance at June 30, 2013	$20,361	$267,236	$4,723	$(57,300)

See notes to unaudited condensed consolidated financial statements.

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Myers Industries, Inc. and Subsidiaries
Condensed Consolidated Statements of Cash Flows (Unaudited)
(Dollars in thousands)

	For the Six Months Ended	
	June 30, 2013	June 30, 2012
Cash Flows from Operating Activities		
Net income	$16,195	$15,643
Items not affecting use of cash:		
Depreciation	16,146	14,737
Amortization of intangible assets	2,046	1,514
Non-cash stock compensation	1,532	1,556
Provision for (recovery of) loss on accounts receivable	496	(1,178)
Deferred taxes	2,140	(18)
Other long-term liabilities	334	785
Loss (gain) from asset disposition	616	(558)
Other	11	50
Cash flows provided by (used for) working capital, net of acquisitions:		
Accounts receivable	5,216	10,384
Inventories	(735)	(12,285)
Prepaid expenses	(1,048)	(3,743)
Accounts payable and accrued expenses	(12,812)	(18,967)
Net cash provided by operating activities	30,137	7,920
Cash Flows from Investing Activities		
Capital expenditures	(10,216)	(8,386)
Acquisition of business, net of cash acquired	(600)	—
Proceeds from sale of property, plant and equipment	—	1,805
Other	(11)	(149)
Net cash used for investing activities	(10,827)	(6,730)
Cash Flows from Financing Activities		
Repayment of long-term debt	—	(305)
Net borrowing on credit facility	3,173	28,374
Cash dividends paid	(3,019)	(4,967)
Proceeds from issuance of common stock	3,262	2,822
Tax benefit from options	50	—
Repurchase of common stock	(3,982)	—
Net cash (used for) provided by financing activities	(516)	25,924
Foreign exchange rate effect on cash	(484)	1,697
Net increase in cash	18,310	28,811
Cash at January 1	3,948	6,801
Cash at June 30	$22,258	$35,612

See notes to unaudited condensed consolidated financial statements.

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Myers Industries, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements
(Dollar amounts in thousands, except where otherwise indicated)

1. Statement of Accounting Policies
Basis of Presentation
The accompanying unaudited condensed consolidated financial statements include the accounts of Myers Industries, Inc. and all wholly owned subsidiaries (collectively, the “Company”), and have been prepared without audit, pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted pursuant to those rules and regulations, although the Company believes that the disclosures are adequate to make the information not misleading. It is suggested that these financial statements be read in conjunction with the financial statements and notes thereto included in the Company’s latest annual report on Form 10-K.
In the opinion of the Company, the accompanying financial statements contain all adjustments (consisting of only normal recurring accruals) necessary to present fairly the financial position as of June 30, 2013, and the results of operations and cash flows for the periods presented. The results of operations for the three and six months ended June 30, 2013 are not necessarily indicative of the results of operations that will occur for the year ending December 31, 2013.
Recent Accounting Pronouncements
In February 2013, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2013-02, Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income requiring new disclosures regarding reclassification adjustments from accumulated other comprehensive income ("AOCI"). ASU No. 2013-02 requires disclosure of amounts reclassified out of AOCI in its entirety, by component, which the Company has elected to disclose in the notes (see below). We adopted this guidance effective January 1, 2013.
Translation of Foreign Currencies

All asset and liability accounts of consolidated foreign subsidiaries are translated at the current exchange rate as of the end of the accounting period and income statement items are translated monthly at an average currency exchange rate for the period. The resulting translation adjustment is recorded in other comprehensive income (loss) as a separate component of shareholders' equity.
Fair Value Measurement
The Company follows guidance included in ASC 820, Fair Value Measurements and Disclosures, for its financial assets and liabilities, as required. The guidance established a common definition for fair value to be applied to U.S. GAAP requiring the use of fair value, established a framework for measuring fair value, and expanded disclosure requirements about such fair value measurements. The guidance did not require any new fair value measurements, but rather applied to all other accounting pronouncements that require or permit fair value measurements. Under ASC 820, the hierarchy that prioritizes the inputs to valuation techniques used to measure fair value is divided into three levels:

Level 1:	Unadjusted quoted prices in active markets for identical assets or liabilities.
Level 2:	Unadjusted quoted prices in active markets for similar assets or liabilities, unadjusted quoted prices for identical or similar assets or liabilities in markets that are not active or inputs that are observable either directly or indirectly.
Level 3:	Unobservable inputs for which there is little or no market data or which reflect the entity’s own assumptions.

The fair value of the Company’s cash, accounts receivable, accounts payable and accrued expenses are considered to have a fair value which approximates carrying value due to the nature and relative short maturity of these assets and liabilities.

The fair value of debt under the Company's Credit Agreement approximates carrying value due to the floating rates and relative short maturity (less than 90 days) of the revolving borrowings under this agreement. The fair value of the Company's $35.0 million fixed rate senior notes was estimated at $35.9 million and $36.5 million at June 30, 2013 and December 31, 2012, respectively, using market observable inputs for the Company's comparable peers with public debt, including quoted prices in active markets and interest rate measurements which are considered level 2 inputs.

Myers Industries, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements - (Continued)
(Dollar amounts in thousands, except where otherwise indicated)

Revenue Recognition

The Company recognizes revenues from the sale of products, net of actual and estimated returns, at the point of passage of title and risk of loss, which is generally at time of shipment, and collectability of the fixed or determinable sales price is reasonably assured.

Accumulated Other Comprehensive Income

The balances in the Company's accumulated other comprehensive income ("AOCI") as of June 30, 2013 and June 30, 2012 are as follows:

	Foreign currency	Defined benefit pension plans	Total
Balance at January 1, 2012	$9,994	$(2,700)	$7,294
Other comprehensive income before reclassifications	1,385	—	1,385
Amounts reclassified from AOCI to income tax expense (benefit) in the Condensed Consolidated Statements of Income	—	632	632
Net current-period other comprehensive income	$1,385	$632	$2,017
Balance at March 31, 2012	$11,379	$(2,068)	$9,311
Other comprehensive income before reclassifications	(612)	—	(612)
Balance at June 30, 2012	$10,767	$(2,068)	$8,699
Balance at January 1, 2013	$12,784	$(2,141)	$10,643
Other comprehensive income before reclassifications	(851)	—	(851)
Amounts reclassified from AOCI to income tax expense (benefit) in the Condensed Consolidated Statements of Income	—	(75)	(75)
Net current-period other comprehensive income	$(851)	$(75)	$(926)
Balance at March 31, 2013	$11,933	$(2,216)	$9,717
Other comprehensive income before reclassifications	(4,994)	—	(4,994)
Balance at June 30, 2013	$6,939	$(2,216)	$4,723

Cash and Cash Equivalents

The Company considers all highly liquid instruments purchased with a maturity of three months or less to be cash equivalents. Cash equivalents are stated at cost, which approximates market value. The Company maintains operating cash and reserves for replacement balances in financial institutions which, from time to time, may exceed federally insured limits. The Company periodically assesses the financial condition of these institutions and believes that the risk of loss is minimal.

2. Inventories

Approximately twenty percent of the Company's inventories use the last-in, first-out (LIFO) method of determining cost. An actual valuation of inventory under the LIFO method can be made only at the end of each year based on the inventory levels and costs at that time. Accordingly, interim LIFO calculations must necessarily be based on management’s estimates of expected year-end inventory levels and costs. Because these are subject to many factors beyond management’s control, estimated interim results, which were immaterial, are subject to change in the final year-end LIFO inventory valuation and therefore, no adjustment was recorded as of June 30, 2013.

Myers Industries, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements - (Continued)
(Dollar amounts in thousands, except where otherwise indicated)

3. Acquisitions

In October 2012, the Company acquired 100% of the stock of Jamco Products Inc. ("Jamco"), an Illinois corporation that is a leading designer and manufacturer of heavy-duty industrial steel carts and safety cabinets used across many markets. The total purchase price was approximately $15.1 million in cash, net of $0.1 million of cash acquired. Jamco's assets and liabilities are recorded at fair value as of the date of acquisition using primarily level 2 and level 3 fair value inputs. Intangible assets included in the acquisition of Jamco are trade name of $1.2 million, technology of $2.0 million, non-compete agreement of $0.1 million and customer relationships of $2.4 million. The technology, non-compete agreement and customer relationships are subject to amortization and have estimated useful lives of ten, two and six years, respectively. The Jamco trade name has an indefinite life and will be subject to periodic (at least annual) evaluation for impairment.

In July 2012, the Company acquired 100% of the stock of Plasticos Novel do Nordeste S.A. ("Novel"), a Brazil-based designer and manufacturer of reusable plastic crates and containers used for closed-loop shipping and storage. Novel also produces a diverse range of plastic industrial safety products. The total purchase price was $30.9 million, which includes a cash payment of $3.4 million, net of $0.6 million of cash acquired, assumed debt of approximately $26.0 million and contingent consideration of $0.9 million based on an earnout. The contingent consideration is contingent upon the annual results of Novel exceeding predefined earnings before interest, taxes, depreciation and amortization over the following four years.

Novel's assets and liabilities are recorded at fair value as of the date of acquisition using primarily level 3 fair value inputs. Intangible assets included in the acquisition of Novel include trade name of $1.6 million, know-how of $1.8 million and customer relationships of $2.4 million The know-how and customer relationships are subject to amortization and have estimated useful lives of ten and six years, respectively. The Novel trade name has an indefinite life and will be subject to periodic (at least annual) evaluation for impairment.

The following unaudited pro forma information presents a summary of consolidated results of operations for the Company including Novel and Jamco as if the acquisitions had occurred on January 1, 2012.

	For the Three Months Ended June 30, 2012	For the Six Months Ended June 30, 2012
Net sales	$194,365	$406,949
Cost of sales	143,257	293,734
Gross profit	51,108	113,215
Selling, general & administrative expenses	39,912	83,231
Operating income	11,196	29,984
Interest expense, net	2,866	5,081
Income before taxes	8,330	24,903
Income taxes	3,049	9,304
Net income	$5,281	$15,599
Income per basic share	$0.16	$0.47
Income per diluted share	$0.15	$0.46

These unaudited pro forma results have been prepared for comparative purposes only and may not be indicative of results of operations which actually would have occurred had the acquisitions taken place on January 1, 2012 or indicative of future results.

Myers Industries, Inc. and Subsidiaries
Notes to Unaudited Condensed Consolidated Financial Statements - (Continued)
(Dollar amounts in thousands, except where otherwise indicated)

The operating results of both businesses acquired have been included in our Material Handling Segment since the date of acquisition. The allocation of the purchase price and the estimated goodwill, which is not deductible for income tax purposes, and other intangibles are as follows:

Assets acquired:	Novel	Jamco
Cash	$630	$88
Accounts receivable	5,467	1,690
Inventory	5,993	3,282
Property, plant and equipment	13,636	2,559
Intangibles	5,790	5,680
Deferred tax assets	435	28
Prepaid assets	1,451	48
Other	719	2
Assets acquired, less cash	$33,491	$13,289
Liabilities assumed:		
Accounts payable and accruals	$3,134	$1,436
Other taxes	3,608	676
Other long-term liabilities	2,293	454
Debt	26,028	—
Deferred income taxes	3,804	3,044
Liabilities assumed	38,867	5,610
Goodwill	8,805	7,435
Total cash consideration, less cash acquired	$3,429	$15,114

4. Goodwill

The Company is required to test for impairment on at least an annual basis. In addition, the Company tests for impairment whenever events or circumstances indicate that it is more likely than not that the fair value of a reporting unit is below its carrying amount. Such events may include, but are not limited to, significant changes in economic and competitive conditions, the impact of the economic environment on the Company's customer base or its businesses, or a material negative change in its relationships with significant customers. The Company conducts its annual impairment assessment as of October 1.

The change in goodwill for the six months ended June 30, 2013 was as follows:

Segment	Balance at January 1, 2013	Acquisitions	Foreign Currency Translation		Impairment	Balance at June 30, 2013
Material Handling	$50,521	$—	$(566	)	$—	$49,955
Lawn and Garden						