MYERS INDUSTRIES INC
Form 10-Q
May 01, 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 March 31, 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 April 25, 2013
Common Stock, without par value	33,464,499 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	
	March 31, 2013	March 31, 2012
Net sales	$214,980	$198,789
Cost of sales	156,662	140,791
Gross profit	58,318	57,998
Selling, general and administrative expenses	45,074	40,881
Operating income	13,244	17,117
Interest expense, net	1,092	1,081
Income before income taxes	12,152	16,036
Income tax expense	4,269	6,051
Net income	$7,883	$9,985
Income per common share:		
Basic	$0.24	$0.30
Diluted	$0.23	$0.29
Dividends declared per share	$0.09	$0.08

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	
	March 31, 2013	March 31, 2012
Net income	$7,883	$9,985
Other comprehensive income (loss), net of tax:		
Foreign currency translation adjustment	(851)	1,385
Pension liability	(75)	632
Total other comprehensive income (loss), net of tax	(926)	2,017
Comprehensive income	$6,957	$12,002

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	March 31, 2013 (Unaudited)	December 31, 2012
Current Assets		
Cash	$4,053	$3,948
Accounts receivable-less allowances of $3,782 and $3,255, respectively	124,076	115,508
Inventories		
Finished and in-process products	75,074	72,899
Raw materials and supplies	34,339	34,603
	109,413	107,502
Prepaid expenses	9,232	9,033
Deferred income taxes	2,240	3,605
Total Current Assets	249,014	239,596
Other Assets		
Goodwill	61,039	61,056
Patents and other intangible assets	25,002	25,839
Other	7,509	7,882
	93,550	94,777
Property, Plant and Equipment, at Cost		
Land	4,438	4,438
Buildings and leasehold improvements	57,056	57,058
Machinery and equipment	449,235	445,789
	510,729	507,285
Less allowances for depreciation and amortization	(364,690)	(356,802)
Property, plant and equipment, net	146,039	150,483
Total Assets	$488,603	$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	March 31, 2013 (Unaudited)	December 31, 2012
Current Liabilities		
Accounts payable	$63,773	$72,417
Accrued expenses		
Employee compensation	13,982	18,885
Income taxes	2,675	1,090
Taxes, other than income taxes	2,643	2,606
Accrued interest	841	240
Other	19,459	19,239
Total Current Liabilities	103,373	114,477
Long-term debt	103,578	92,814
Other liabilities	17,089	17,865
Deferred income taxes	30,470	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 33,551,449 and 33,480,189; net of treasury shares of 4,148,683 and 4,356,160, respectively)	20,329	20,316
Additional paid-in capital	266,632	266,419
Accumulated other comprehensive income	9,717	10,643
Retained deficit	(62,585)	(67,356)
Total Shareholders' Equity	234,093	230,022
Total Liabilities and Shareholders' Equity	$488,603	$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	—	—	—	7,883
Other comprehensive income (loss)	—	—	(926)	—
Purchases for treasury	(83)	(1,872)	—	—
Common stock issued	96	1,610	—	—
Cancellations and terminations of share grants	—	37	—	—
Stock based compensation	—	438	—	—
Dividends declared - $.09 per share	—	—	—	(3,112)
Balance at March 31, 2013	$20,329	$266,632	$9,717	$(62,585)

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 Three Months Ended March 31, 2013	March 31, 2012
Cash Flows from Operating Activities		
Net income	$7,883	$9,985
Adjustments to reconcile net income to net cash used in operating activities:		
Depreciation	8,150	7,545
Amortization of intangible assets	1,001	757
Non-cash stock compensation	438	667
Provision for (recovery of) loss on accounts receivable	822	(627)
Deferred taxes	2,227	(32)
Other long-term liabilities	(834)	586
Gain on sale of property, plant and equipment	—	(224)
Other	—	50
Cash flow used for working capital:		
Accounts receivable	(9,833)	(7,679)
Inventories	(2,224)	(7,089)
Prepaid expenses	(237)	(1,726)
Accounts payable and accrued expenses	(13,896)	(8,623)
Net cash used in operating activities	(6,503)	(6,410)
Cash Flows from Investing Activities		
Additions to property, plant and equipment	(4,508)	(3,138)
Proceeds from sale of property, plant and equipment	—	1,332
Other	96	(3)
Net cash used in investing activities	(4,412)	(1,809)
Cash Flows from Financing Activities		
Repayment of long-term debt	—	(305)
Net borrowing on credit facility	10,763	6,262
Cash dividends paid	—	(2,316)
Proceeds from issuance of common stock	1,706	397
Tax benefit from options	37	—
Repurchase of common stock	(1,955)	—
Net cash provided by financing activities	10,551	4,038
Foreign exchange rate effect on cash	469	676
Net increase (decrease) in cash	105	(3,505)
Cash at January 1	3,948	6,801
Cash at March 31	$4,053	$3,296

See notes to unaudited condensed consolidated financial statements.

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 March 31, 2013, and the results of operations and cash flows for the periods presented. The results of operations for the three months ended March 31, 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 $36.2 million and $36.5 million at March 31, 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 March 31, 2013 and March 31, 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
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

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-two 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 March 31, 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 approximately $31.0 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 results of Novel exceeding predefined earnings before interest, taxes, depreciation and amortization over the next 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.

	Three Months Ended March 31, 2012
Net sales	$212,584
Cost of sales	150,477
Gross profit	62,107
Selling, general & administrative expenses	43,319
Operating income	18,788
Interest expense, net	2,215
Income before taxes	16,573
Income taxes	6,255
Net income	$10,318
Income per basic share	$0.31
Income per diluted share	$0.30

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 tax liabilities	3,804	3,044
Liabilities assumed	38,867	5,610
Goodwill	8,805	7,435
Total 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 three months ended March 31, 2013 was as follows:

Segment	Balance at January 1, 2013	Acquisitions	Foreign Currency Translation	Impairment	Balance at March 31, 2013
Material Handling	$50,521	$—	$114	$—	$50,635
Lawn and Garden	9,614	—	(131)	—	9,483
Distribution	214	—	—	—	214
Engineered Products	707	—	—	—	707
Total	$61,056	$—	$(17)	$—	$61,039

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

5. Net Income Per Common Share
Net income per common share, as shown on the Condensed Consolidated Statements of Income (unaudited), is determined on the basis of the weighted average number of common shares outstanding during the period as follows:

	Three Months Ended March 31,	
	2013	2012
Weighted average common shares outstanding		
Basic	33,504,222	33,439,012
Dilutive effect of stock options and restricted stock	355,194	473,153
Weighted average common shares outstanding diluted	33,859,416	33,912,165

Options to purchase 471,400 and 217,500 shares of common stock that were outstanding at March 31, 2013 and 2012, respectively, were not included in the computation of diluted earnings per share as the exercise prices of these options were greater than the average market price of common shares, and their effect would be anti-dilutive.

6. Supplemental Disclosure of Cash Flow Information

	Three Months Ended March 31,	
	2013	2012
Interest paid	$526	$296
Income taxes paid	$435	$2,455

7. Restructuring
The charges related to various restructuring programs implemented by the Company are included in selling, general and administrative ("SG&A") expenses and cost of sales. Our Distribution and Lawn and Garden Segments, as well as Corporate costs are recorded in SG&A, while all Engineered Products Segment expenses are recorded in cost of sales. Material Handling costs are recorded in both SG&A and cost of sales. The restructuring charges by segment are presented in the following table.

	Three Months Ended March 31,	
Segment	2013	2012
Material Handling	$210	$—
Lawn and Garden	403	23
Distribution	74	430
Engineered Products	3	102
Corporate	17	—
Total	$707	$555

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

The Company recorded total restructuring expenses of \$0.5 million in SG&A, and \$0.2 million in cost of sales for the three months ended March 31, 2013. The Company recorded total restructuring expenses of \$0.5 million in SG&A and \$0.1 million in cost of sales for the three months ended March 31, 2012. Estimated lease obligations associated with closed facilities were based on level 2 inputs.

The amounts for severance and personnel costs associated with restructuring have been included in other accrued expenses on the accompanying Condensed Consolidated Statements of Financial Position.

	Severance and Personnel	Other Exit Costs	Total
Balance at January 1, 2012	$—	$605	$605
Provision	239	316	555
Less: Payments	(239)	(353)	