

MYERS INDUSTRIES INC

Form 10-Q

August 08, 2008

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**SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
Form 10-Q**

**Quarterly report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934  
For the quarterly period ended June 30, 2008**

**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 1-8524**

**Myers Industries, Inc.**

**(Exact name of registrant as specified in its charter)**

**Ohio**

*(State or other jurisdiction of  
incorporation or organization)*

**34-0778636**

*(IRS Employer Identification  
Number)*

**1293 South Main Street**

**Akron, Ohio**

*(Address of principal executive offices)*

**44301**

*(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  No .**

**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  Accelerated filer  Non-accelerated filer  Smaller Reporting Company   
(Do not check if a smaller reporting company)**

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

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

<b>Class</b>	<b>Outstanding as of July 31, 2008</b>
<b>Common Stock, without par value</b>	<b>35,224,882 shares</b>

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**Myers Industries, Inc.**  
**Condensed Statements of Consolidated Financial Position (Unaudited)**  
**As of June 30, 2008 and December 31, 2007**

	June 30, 2008	December 31, 2007
<b>Assets</b>		
<b>Current Assets</b>		
Cash	\$ 13,175,488	\$ 7,558,832
Accounts receivable-less allowances of \$4,388,000 and \$3,915,000, respectively	124,144,483	129,631,910
<b>Inventories</b>		
Finished and in-process products	77,342,957	77,121,338
Raw materials and supplies	51,372,135	48,034,866
	128,715,092	125,156,204
Prepaid expenses	4,026,622	6,164,390
Deferred income taxes	8,291,788	9,298,038
<b>Total Current Assets</b>	<b>278,353,473</b>	<b>277,809,374</b>
<b>Other Assets</b>		
Goodwill	173,340,950	171,462,256
Intangible assets	26,377,095	28,335,537
Other	15,202,407	5,974,876
	214,920,452	205,772,669
<b>Property, Plant and Equipment, at Cost</b>		
Land	5,627,965	5,696,694
Buildings and leasehold improvements	78,337,593	78,825,686
Machinery and equipment	427,757,178	421,206,343
	511,722,736	505,728,723
Less allowances for depreciation and amortization	308,801,188	291,758,397
	202,921,548	213,970,326
	<b>\$ 696,195,473</b>	<b>\$ 697,552,369</b>

See notes to unaudited condensed consolidated financial statements.



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**Part I Financial Information**  
**Myers Industries, Inc.**  
**Condensed Statements of Consolidated Financial Position (Unaudited)**  
**As of June 30, 2008 and December 31, 2007**

	June 30, 2008	December 31, 2007
<b>Liabilities and Shareholders Equity</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 66,276,066	\$ 78,268,137
Accrued expenses		
Employee compensation	17,848,199	21,604,532
Income taxes	2,891,894	14,803,686
Taxes, other than income taxes	2,735,670	2,036,230
Accrued interest	562,169	455,842
Other	13,582,399	37,680,135
Current portion of long-term debt	3,096,129	3,626,077
<b>Total Current Liabilities</b>	106,992,526	158,474,639
Long-term Debt, less current portion	204,421,619	167,253,706
Other Liabilities	4,770,772	4,013,808
Deferred Income Taxes	50,999,806	50,540,270
<b>Shareholders Equity</b>		
Serial Preferred Shares (authorized 1,000,000 shares)	-0-	-0-
Common Shares, without par value (authorized 60,000,000 shares; outstanding 35,209,916 and 35,180,192 shares, respectively)	21,434,981	21,416,849
Additional paid-in capital	274,649,909	273,617,888
Accumulated other comprehensive income	10,973,963	9,320,002
Retained income	21,951,897	12,915,207
	329,010,750	317,269,946
	\$ 696,195,473	\$ 697,552,369

See notes to unaudited condensed consolidated financial statements.

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Myers Industries, Inc.****Condensed Statements of Consolidated Income (Unaudited)**

	For The Three Months Ended		For The Six Months Ended	
	June 30, 2008	June 30, 2007	June 30, 2008	June 30, 2007
Net sales	\$ 214,608,587	\$ 225,621,571	\$ 463,954,747	\$ 472,092,102
Cost of sales	165,215,974	167,793,941	354,602,169	340,498,737
Gross profit	49,392,613	57,827,630	109,352,578	131,593,365
Selling and administrative expenses	42,006,434	49,717,419	85,204,283	96,526,291
Operating income	7,386,179	8,110,211	24,148,295	35,067,074
Interest expense, net	2,777,588	4,421,869	5,779,221	7,987,357
Income from continuing operations before income taxes	4,608,591	3,688,342	18,369,074	27,079,717
Income taxes	1,728,341	1,175,000	6,840,568	9,829,000
Income from continuing operations	2,880,250	2,513,342	11,528,506	17,250,717
Income from discontinued operations, net of tax	0	0	1,732,027	17,787,645
Net income	\$ 2,880,250	\$ 2,513,342	\$ 13,260,533	\$ 35,038,362
Income per common share				
Basic				
Continuing operations	\$ .08	\$ .07	\$ 0.33	\$ .49
Discontinued	0	0	.05	.51
Net income	\$ .08	\$ .07	\$ .38	\$ 1.00

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Diluted							
Continuing operations	\$	.08	\$	.07	\$	0.33	\$ .49
Discontinued		0		0		.05	.51
Net income	\$	.08	\$	.07	\$	.38	\$ 1.00

See notes to unaudited condensed consolidated financial statements.

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**Part I Financial Information**  
**Myers Industries, Inc.**  
**Condensed Statements of Consolidated Cash Flows (Unaudited)**  
**For the Six Months Ended June 30, 2008 and 2007**

	June 30, 2008	June 30, 2007
<b>Cash Flows From Operating Activities</b>		
Net income	\$ 13,260,533	\$ 35,038,362
Net income from discontinued operations	(1,732,027)	(17,787,645)
Items not affecting use of cash		
Depreciation	18,294,431	16,810,507
Amortization of other intangible assets	1,882,783	1,429,810
Non cash stock compensation	757,819	657,840
Deferred taxes	1,831,161	(1,205,449)
Gain on sale of property, plant and equipment	(648,697)	-0-
Cash flow provided by (used for) working capital		
Accounts receivable	5,474,462	7,360,236
Inventories	(3,902,448)	10,678,951
Prepaid expenses	2,118,428	1,319,966
Accounts payable and accrued expenses	(40,319,591)	(9,789,915)
Net cash (used for) provided by operating activities of continuing operations	(2,983,146)	44,512,661
Net cash provided by (used for) operating activities of discontinued operations	1,732,027	(2,016,769)
Net cash (used for) provided by operating activities	(1,251,119)	42,495,892
<b>Cash Flows From Investing Activities</b>		
Acquisition of business, net of cash acquired	-0-	(96,223,113)
Proceeds from sale of property, plant and equipment	835,500	-0-
Additions to property, plant and equipment	(8,274,729)	(5,913,218)
Deposits on machinery and equipment	(9,708,141)	-0-
Other	293,434	(214,197)
Net cash used for investing activities of continuing operations	(16,853,936)	(102,350,528)
Net cash provided by investing activities of discontinued operations	-0-	67,909,094
Net cash used for investing activities	(16,853,936)	(34,441,434)
<b>Cash Flows From Financing Activities</b>		
Repayment of long term debt	-0-	(60,559,865)
Net borrowing (repayment) of credit facility	37,385,762	35,074,057
Cash dividends paid (1)	(14,074,294)	(3,688,529)
Proceeds from issuance of common stock	292,334	860,362
Tax benefit from options exercised	-0-	110,558
Deferred financing costs	-0-	(14,212)

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Net cash used for financing activities of continuing operations	23,603,802	(28,217,629)
Net cash provided by (used for) financing activities of discontinued operations	-0-	(224,445)
Net cash provided by (used for) financing activities	23,603,802	(28,442,074)
Foreign Exchange Rate Effect on Cash	117,919	(48,447)
Net increase (decrease) in cash	5,616,656	(20,436,063)
Cash at January 1 (\$27,086,311 included in discontinued operations at January 1, 2007)	7,558,832	33,723,700
	\$ 13,175,488	\$ 13,287,637

(1) Includes special dividend of \$9.85 million accrued at December 31, 2007

See notes to unaudited condensed consolidated financial statements.

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**Part I Financial Information**  
**Myers Industries, Inc.**  
**Condensed Statement of Consolidated Shareholders Equity (Unaudited)**  
**For the Six Months Ended June 30, 2008**

	Common Stock	Additional Paid-In Capital	Accumulative Other Comprehensive Income	Retained Income
December 31, 2007	\$21,416,849	\$273,617,888	\$ 9,320,002	\$12,915,207
Net income				13,260,533
Foreign currency translation adjustment			1,653,961	
Common Stock issued	18,132	274,202		
Stock based compensation		757,819		
Dividends \$ .12 per share				(4,223,843)
June 30, 2008	\$21,434,981	\$274,649,909	\$10,973,963	\$21,951,897

See notes to unaudited condensed consolidated financial statements.

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**Part I Financial Information**  
**Myers Industries, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**Unaudited**

**Statement of Accounting Policy**

The accompanying financial statements include the accounts of Myers Industries, Inc. and 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, 2008, and the results of operations and cash flows for the three and six months ended June 30, 2008 and 2007. The results of operations for the three and six months ended June 30, 2008 are not necessarily indicative of the results of operations that will occur for the year ending December 31, 2008.

**Recent Accounting Pronouncements**

*Standards Adopted*

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), and in February 2007, the FASB issued SFAS No. 159, The Fair Value Option for Financial Assets and Financial Liabilities (SFAS 159). SFAS 157 was issued to eliminate the diversity in practice that exists due to the different definitions of fair value and the limited guidance in applying these definitions. SFAS 157 encourages entities to combine fair value information disclosed under SFAS 157 with other accounting pronouncements, including SFAS No. 107, Disclosures about Fair Value of Financial Instruments, where applicable. Additionally, SFAS 159 permits entities to choose to measure many financial instruments and certain other items at fair value.

Effective January 1, 2008 the Company adopted SFAS 157 and SFAS 159. In February 2008, the FASB issued FASB Staff Position Nos. FAS 157-1 and FAS 157-2 (FSP 157-1 and FSP 157-2). FSP 157-1 excludes SFAS No. 13, Accounting for Leases, as well as other accounting pronouncements that address fair value measurements for leases, from the scope of SFAS No. 157. FSP 157-2 delays the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities, except for items that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually) until fiscal years beginning after November 15, 2008.

The Company did not elect the fair value option for any assets or liabilities under SFAS 159. The adoption of SFAS 157 and SFAS 159 did not materially affect the Company's consolidated financial results of operations, cash flows or financial position.

*Standards Issued Not Yet Adopted*

In December 2007, the FASB issued Statement No. 141R, Business Combinations, and FASB Statement No. 160, Non-Controlling Interests in Consolidated Financial Statements. Statements 141R and 160 require most identifiable assets, liabilities, non-controlling interests, and goodwill acquired in a business combination to be recorded at full fair value and require non-controlling interests (previously referred to as minority interests) to be reported as a component of equity, which changes the accounting for transactions with non-controlling shareholders. Both statements are effective for periods beginning after December 15, 2008, and earlier adoption is prohibited. Statement 160 will be applied prospectively to all non-controlling interests, including any that arose before the effective date. The Company will apply the guidance of Statement 141R to business combinations completed on or after January 1, 2009.

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of SFAS No. 133. The Statement requires enhanced disclosures about an entity's derivative and hedging



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activities. The Statement is effective for fiscal years and interim periods beginning after November 15, 2008. The Company is evaluating the effect of additional disclosures required by the Statement beginning January 1, 2009.

**Acquisitions**

On January 9, 2007, the Company acquired all the shares of ITML Horticultural Products, Inc., an Ontario corporation ( ITML ). ITML designs, manufactures and sells plastic containers and related products for professional floriculture / horticulture grower markets across North America, utilizing injection molding, blow molding, and thermoforming processes. Additionally, ITML utilizes extensive technology and expertise for resin reprocessing and recycling for use in its products. The acquired business had fiscal 2006 annual sales of approximately \$169.5 million. The total purchase price was approximately \$119 million, which includes the assumption of approximately \$64.6 million debt outstanding as of the acquisition date. In addition, the acquisition allows for additional purchase consideration to be paid contingent upon the results of the Company's Lawn and Garden segment in 2008, specifically the achievement of earnings before interest, taxes, depreciation and amortization that are in excess of targeted amounts.

On March 8, 2007, the Company acquired select equipment, molds and inventory related to the Xytec and Combo product lines of Schoeller Arca Systems Inc., a subsidiary of Schoeller Arca Systems N.V., in North America ( SASNA ). These product lines include collapsible bulk containers used for diverse shipping and handling applications in markets from manufacturing to food to liquid transport. The acquired business had 2006 annual sales of approximately \$50 million. The total purchase price was approximately \$41.6 million, some of which has been allocated to intangible assets including patents, customer relationships and technology with lives ranging from nine to ten years.

The results for both ITML and SASNA product lines are included in the consolidated results of operations from the date of acquisition. ITML is included in the Company's Lawn and Garden segment and the SASNA product lines are included in the Material Handling North America segment. The allocation of the purchase price and the estimated goodwill and other intangibles are as follows:

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**Part I Financial Information**  
**Myers Industries, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**Unaudited**

(Amounts in thousands)	ITML	Schoeller Arca
Assets acquired:		
Accounts receivable	\$ 45,252	\$ -0-
Inventory	37,107	8,825
Property, plant & equipment	56,142	18,100
Intangibles	9,200	14,700
Other	4,409	-0-
	152,110	41,625
Liabilities assumed:		
Accounts payable and accruals	(25,496)	-0-
Debt	(64,570)	-0-
Deferred Income Taxes	(17,182)	-0-
	(107,248)	-0-
Goodwill	9,211	-0-
Total consideration	\$ 54,073	\$ 41,625

The results of ITML operations are included in the Company's consolidated results of operations from January 9, 2007, the date of acquisition and are reported in the Company's lawn and garden segment. The following unaudited pro forma information presents a summary of consolidated results of operations for the Company including ITML as if the acquisition had occurred January 1, 2007.

(Amounts in thousands, except per share)	Six months ended June 30, 2007
Net Sales	\$ 476,647
Income from Continuing Operations	17,256
Income from Continuing Operations per basic and diluted share	\$ .49

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 acquisition taken place on January 1, 2007, or future results.

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**Part I Financial Information  
Myers Industries, Inc.**

**Notes to Condensed Consolidated Financial Statements  
Unaudited**

**Discontinued Operations**

In the third quarter of 2006, the Company's Board of Directors approved the plan for divestiture of the Company's Material Handling Europe business segment. On October 20, 2006, the Company entered into a definitive agreement to sell these businesses and the sale was completed on February 1, 2007 with net proceeds of approximately \$68.1 million received. Included in 2007 net income was a gain of approximately \$17.8 million, net of taxes of \$3.3 million, from the disposition of these businesses. These discontinued operations had net sales of \$14.9 million and net income from operations of \$1,886 in 2007 prior to the disposition. In 2008, the Company also recorded net income of approximately \$1.7 million as a result of net proceeds received related to the settlement of certain contingencies in connection with the disposed businesses.

In accordance with U.S. generally accepted accounting principles, the operating results related to these businesses have been included in discontinued operations in the Company's condensed statements of consolidated income for all periods presented.

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**Part I Financial Information**  
**Myers Industries, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**Unaudited**

**Merger Agreement**

On April 3, 2008, the Company entered into a letter agreement mutually terminating the Agreement and Plan of Merger (the Merger Agreement ) with MYEH Corporation, a Delaware corporation (the Parent ) and MYEH Acquisition Corporation, an Ohio corporation ( MergerCo ). Under the terms of the Merger Agreement, MergerCo would have been merged with and into the Company, with the Company continuing as the surviving corporation and becoming a wholly-owned subsidiary of Parent (the Merger ). Parent is owned by GS Capital Partners, LP (GSCP) and other private equity funds sponsored by Goldman, Sachs & Co.

The Merger Agreement contained termination rights for both the Company and Parent in the event the Merger was not consummated by December 15, 2007. In December 2007, an agreement was made to extend this date from December 15, 2007 to April 30, 2008. This extension did not provide GSCP additional rights with respect to the potential merger and any consummation of the merger would have remained subject to satisfaction of the conditions to closing in the Merger Agreement. In connection with the extension, GSCP paid the Company a previously agreed upon \$35 million termination fee in December 2007. This non refundable termination fee, net of related expenses of \$8.25 million, was recorded as other income by the Company in the fourth quarter of 2007. In addition, as permitted by the extension, the Company paid a special dividend of \$0.28 per common share totaling approximately \$9.85 million on January 2, 2008 to shareholders of record as of December 20, 2007.

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**Part I Financial Information**  
**Myers Industries, Inc.**  
**Notes to Condensed Consolidated Financial Statements**  
**Unaudited**

**Goodwill**

The change in goodwill for the six months ended June 30, 2008 is as follows:  
(Amount in thousands)

Segment	Balance at January 1, 2008	Acquisitions	Foreign Currency Translation	Impairment	Balance at June 30, 2008
Distribution	\$ 214	\$ -0-	\$ -0-	\$ -0-	\$ 214
Material Handling North America	30,383	-0-	-0-	-0-	30,383
Automotive and Custom	60,074	-0-	-0-	-0-	60,074
Lawn and Garden	80,791	-0-	1,879	-0-	82,670
Total	\$171,462	\$ -0-	\$1,879	\$ -0-	\$173,341

**Net Income Per Share**

Net income per share, as shown on the Condensed Statements of Consolidated Income, is determined on the basis of the weighted average number of common shares outstanding during the period as follows:

(In thousands)	Three Months Ended June 30		Six Months Ended June 30,	
	2008	2007	2008	2007
Weighted average common shares outstanding				
Basic	35,203	35,140	35,196	35,115
Dilutive effect of stock options	102	159	119	93