

MILLER INDUSTRIES INC /TN/  
Form 10-Q  
November 08, 2007

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

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**FORM 10-Q**

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

For the quarterly period ended September 30, 2007

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 1-14124

**MILLER INDUSTRIES, INC.**

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(Exact name of registrant as specified in its charter)

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

**62-1566286**  
(I.R.S. Employer Identification No.)

**8503 Hilltop Drive**  
**Ooltewah, Tennessee**  
(Address of principal executive offices)

**37363**  
(Zip Code)

**(423) 238-4171**

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(Registrant's telephone number, including area code)

**Not Applicable**

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(Former name, former address and former fiscal year, if changed since last report)

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Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes       No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer

Accelerated Filer

Non-Accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes       No.

The number of shares outstanding of the registrant's common stock, par value \$.01 per share, as of October 31, 2007 was 11,588,179.

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**FORWARD-LOOKING STATEMENTS**

Certain statements in this Form 10-Q, including but not limited to Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” may be deemed to be forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are made based on our management’s belief, as well as assumptions made by, and information currently available to, our management, pursuant to “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. Our actual results may differ materially from the results anticipated in these forward-looking statements due to, among other things, the risks related to the cyclical nature of our industry, general economic conditions and the economic health of our customers, our dependence on outside suppliers of raw materials, increases in the cost of aluminum, steel, petroleum-related products and other raw materials, increases in fuel and other transportation costs, and those other risks referenced herein, including those risks referred to in this report, in Part II, “Item 1A. Risk Factors,” and those risks discussed in our other filings with the SEC, including those risks discussed under the caption “Risk Factors” in our Form 10-K for

fiscal 2006, which discussion is incorporated herein by this reference. Such factors are not exclusive. We do not undertake to update any forward-looking statement that may be made from time to time by, or on behalf of, our company.

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**PART I. FINANCIAL INFORMATION****ITEM 1. FINANCIAL STATEMENTS (UNAUDITED)****MILLER INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS****(In thousands, except share data)**

	<b>September 30, 2007</b>		<b>December 31, 2006</b>
	<b>(Unaudited)</b>		
<b>ASSETS</b>			
<b>CURRENT ASSETS:</b>			
Cash and temporary investments	\$ 11,304	\$	8,204
Accounts receivable, net of allowance for doubtful accounts of \$1,630 and \$2,488 at September 30, 2007 and December 31, 2006, respectively	76,569		84,186
Inventories, net	36,416		43,155
Prepaid expenses and other	2,212		2,079
Current deferred income taxes	10,154		12,154
Total current assets	136,655		149,778
<b>PROPERTY, PLANT, AND EQUIPMENT, net</b>	<b>32,885</b>		<b>27,527</b>
<b>GOODWILL</b>	<b>11,619</b>		<b>11,619</b>
<b>DEFERRED INCOME TAXES</b>	<b>3,457</b>		<b>7,586</b>
<b>OTHER ASSETS</b>	<b>548</b>		<b>922</b>
	\$ 185,164	\$	197,432
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>			
<b>CURRENT LIABILITIES:</b>			
Current portion of long-term obligations	\$ 1,602	\$	1,623
Accounts payable	37,532		58,620
Accrued liabilities and other	12,952		13,269
Total current liabilities	52,086		73,512
<b>LONG-TERM OBLIGATIONS, less current portion</b>	<b>4,319</b>		<b>10,537</b>
<b>COMMITMENTS AND CONTINGENCIES (Notes 5 and 8)</b>			
<b>SHAREHOLDERS' EQUITY:</b>			
Preferred stock, \$.01 par value; 5,000,000 shares authorized, none issued or outstanding		—	—
Common stock, \$.01 par value; 100,000,000 shares authorized, 11,588,179 and 11,509,964 outstanding at September 30, 2007 and December 31, 2006, respectively	116		115
Additional paid-in capital	160,623		159,702
Accumulated deficit	(34,673)		(48,539)
Accumulated other comprehensive income	2,693		2,105
Total shareholders' equity	128,759		113,383
	\$ 185,164	\$	197,432

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

**MILLER INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF INCOME**

(In thousands, except per share data)  
(Unaudited)

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2007	2006	2007	2006
<b>NET SALES</b>	\$ 92,692	\$ 107,364	\$ 315,520	\$ 292,723
<b>COSTS AND EXPENSES:</b>				
Costs of operations	79,637	92,228	270,485	249,582
Selling, general and administrative expenses	6,481	6,632	20,671	19,615
Interest expense, net	1,018	851	2,612	2,653
Total costs and expenses	87,136	99,711	293,768	271,850
<b>INCOME BEFORE INCOME TAXES</b>	5,556	7,653	21,752	20,873
<b>INCOME TAX PROVISION</b>	1,958	967	7,886	2,761
<b>NET INCOME</b>	\$ 3,598	\$ 6,686	\$ 13,866	\$ 18,112
<b>BASIC INCOME PER COMMON SHARE</b>	\$ 0.31	\$ 0.59	\$ 1.20	\$ 1.60
<b>DILUTED INCOME PER COMMON SHARE</b>	\$ 0.31	\$ 0.58	\$ 1.19	\$ 1.56
<b>WEIGHTED AVERAGE SHARES OUTSTANDING:</b>				
Basic	11,572	11,360	11,545	11,334
Diluted	11,667	11,577	11,661	11,589

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

**MILLER INDUSTRIES, INC. AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**

(In thousands)  
(Unaudited)

	<b>Nine Months Ended September 30,</b>	
	<b>2007</b>	<b>2006</b>
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 13,866	\$ 18,112
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,127	2,119
Amortization of deferred financing costs	92	92
Deferred income tax provision	6,134	—
Provision for doubtful accounts	225	771
Stock-based compensation	231	231
Issuance of non-employee director shares	75	75
Gain on disposals of property, plant and equipment	(109)	—
Changes in operating assets and liabilities:		
Accounts receivable	7,600	(13,391)
Inventories	7,211	(7,227)
Prepaid expenses and other	(107)	(1,501)
Accounts payable	(21,462)	6,771
Accrued liabilities and other	(398)	208
Net cash provided by operating activities from continuing operations	15,485	6,260
Net cash provided by operating activities from discontinued operations	—	658
Net cash provided by operating activities	15,485	6,918
<b>INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(7,401)	(6,689)
Proceeds from sale of property, plant and equipment	143	91
Payments received on notes receivables	391	171
Net cash used in investing activities from continuing operations	(6,867)	(6,427)
Net cash provided by investing activities from discontinued operations	—	25
Net cash used in investing activities	(6,867)	(6,402)
<b>FINANCING ACTIVITIES:</b>		
Net borrowings under senior credit facility	—	3,000
Payments under subordinated credit facility	(5,000)	(5,000)
Payments on long-term obligations	(1,324)	(1,202)
Borrowings under long-term obligations	—	168
Additions to deferred financing costs	(42)	(4)
Proceeds from the exercise of stock options	617	484
Net cash used in financing activities from continuing operations	(5,749)	(2,554)
Net cash used in financing activities from discontinued operations	—	—
Net cash used in financing activities	(5,749)	(2,554)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND TEMPORARY INVESTMENTS</b>		
	231	520
<b>NET CHANGE IN CASH AND TEMPORARY INVESTMENTS</b>	<b>3,100</b>	<b>(1,518)</b>
<b>CASH AND TEMPORARY INVESTMENTS, beginning of period</b>	<b>8,204</b>	<b>6,147</b>

<b>CASH AND TEMPORARY INVESTMENTS-DISCONTINUED OPERATIONS, beginning of period</b>		—	23
<b>CASH AND TEMPORARY INVESTMENTS-DISCONTINUED OPERATIONS, end of period</b>		—	102
<b>CASH AND TEMPORARY INVESTMENTS, end of period</b>	<b>\$ 11,304</b>	<b>\$</b>	<b>4,550</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>			
Cash payments for interest	<b>\$ 3,233</b>	<b>\$</b>	<b>2,866</b>
Cash payments for income taxes	<b>\$ 2,157</b>	<b>\$</b>	<b>3,044</b>

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

**MILLER INDUSTRIES, INC. AND SUBSIDIARIES**  
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**  
**(Unaudited)**

**1. BASIS OF PRESENTATION**

The condensed consolidated financial statements of Miller Industries, Inc. and subsidiaries (the “Company”) included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in annual financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations. Nevertheless, the Company believes that the disclosures are adequate to make the financial information presented not misleading. In the opinion of management, the accompanying unaudited condensed consolidated financial statements reflect all adjustments, which are of a normal recurring nature, to present fairly the Company’s financial position, results of operations and cash flows at the dates and for the periods presented. Cost of goods sold for interim periods for certain entities is determined based on estimated gross profit rates. Interim results of operations are not necessarily indicative of results to be expected for the fiscal year. These condensed consolidated financial statements should be read in conjunction with the Company’s Annual Report on Form 10-K for the year ended December 31, 2006.

**2. BASIC AND DILUTED INCOME PER SHARE**

Basic income per share is computed by dividing income by the weighted average number of common shares outstanding. Diluted income per share is calculated by dividing income by the weighted average number of common and potential dilutive common shares outstanding. Diluted income per share takes into consideration the assumed conversion of outstanding stock options resulting in approximately 95,000 and 217,000 potential dilutive common shares for the three months ended September 30, 2007 and 2006, respectively, and 116,000 and 254,000 potential dilutive common shares for the nine months ended September 30, 2007 and 2006, respectively. Options to purchase approximately 35,000 and 103,000 shares of common stock were outstanding during the three months ended September 30, 2007 and 2006, respectively, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive. For the nine months ended September 30, 2007 and 2006, options to purchase approximately 35,000 and 61,000 were outstanding during the related period but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

**3. INVENTORIES**

Inventory costs include materials, labor and factory overhead. Inventories are stated at the lower of cost or market, determined on a first-in, first-out basis.

Inventories at September 30, 2007 and December 31, 2006 consisted of the following (in thousands):

	<b>September 30, 2007</b>	<b>December 31, 2006</b>
Chassis	\$ 2,378	\$ 3,596
Raw materials	17,055	18,767
Work in process	12,284	12,566
Finished goods	4,699	8,226
	<b>\$ 36,416</b>	<b>\$ 43,155</b>

**4. LONG-LIVED ASSETS**

The Company periodically reviews the carrying amount of its long-lived assets and goodwill to determine if those assets may be recoverable based upon the future operating cash flows expected to be generated by those assets. Management believes that its long-lived assets are appropriately valued.

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## 5. LONG-TERM OBLIGATIONS

Long-term obligations consisted of the following at September 30, 2007 and December 31, 2006 (in thousands):

	September 30, 2007		December 31, 2006
Outstanding borrowings under Senior Credit Facility	\$ 3,850	\$	4,900
Outstanding borrowings under Junior Credit Facility	—		5,000
Mortgage, equipment and other notes payable	2,071		2,260
	<b>5,921</b>		12,160
Less current portion	<b>(1,602)</b>		(1,623)
	<b>\$ 4,319</b>	\$	10,537

Certain equipment and manufacturing facilities are pledged as collateral under the mortgage and equipment notes payable.

### Credit Facilities

*Senior Credit Facility.* The Company is party to a Credit Agreement (the “Senior Credit Agreement”) with Wachovia Bank, National Association, for a \$27.0 million senior secured credit facility (the “Senior Credit Facility”). The Senior Credit Facility consists of a \$20.0 million revolving credit facility (the “Revolver”), and a \$7.0 million term loan (the “Term Loan”). The Senior Credit Facility is secured by substantially all of the Company’s assets, and contains customary representations and warranties, events of default and affirmative and negative covenants for secured facilities of this type. On July 11, 2007, the Company and Wachovia agreed to certain amendments to the Senior Credit Agreement which are described below.

Formerly, in the absence of a default, all borrowings under the Revolver bore interest at the LIBOR Market Index Rate (as defined in the Senior Credit Agreement) plus a margin of between 1.75% to 2.50% per annum that was subject to adjustment from time to time based upon the Consolidated Leverage Ratio (as defined in the Senior Credit Agreement), and the Term Loan bore interest at a 30-day adjusted LIBOR rate plus a margin of between 1.75% to 2.50% per annum that was subject to adjustment from time to time based upon the Consolidated Leverage Ratio. The Revolver was scheduled to expire on June 15, 2008, and the Term Loan was scheduled to mature on June 15, 2010.

Under the amended Senior Credit Agreement, the non-default rate of interest under the Revolver and Term Loan was reduced to the LIBOR Market Index Rate plus a margin of between 0.75% to 1.50% per annum that is subject to adjustment from time to time based upon the Consolidated Leverage Ratio, and the maturity date of the Revolver was extended to June 17, 2010. The amendments also increased the ratio of leverage permitted under the Consolidated Leverage Ratio covenant, and extended and modified certain of the negative covenants and events of default set forth in the Senior Credit Agreement.

At September 30, 2007 and December 31, 2006, the Company had no outstanding borrowings under the Revolver.

*Junior Credit Facility.* In May 2006, the Company repaid \$5.0 million of subordinated debt under its junior credit facility with William G. Miller, the Company’s Chairman of the Board and Co-Chief Executive Officer (the “Junior Credit Facility”), and in May 2007, the Company repaid the remaining \$5.0 million principal balance under the Junior Credit Facility. With such payments, all loans from Mr. Miller to the Company were paid in full. In July 2007, in connection with the amendments to the Company’s Senior Credit Agreement, the Junior Credit Facility was terminated.

*Interest Rate Sensitivity.* Because of the amount of obligations outstanding under the Senior Credit Facility and the connection of the interest rate under the Senior Credit Facility (including the default rates) to the LIBOR rate, an increase in the LIBOR rate could have an effect on the Company's ability to satisfy its obligations under the Senior Credit Facility and increase its interest expense. Therefore, the Company's liquidity and access to capital resources could be further affected by increasing interest rates.

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Future maturities of long-term obligations at September 30, 2007 are as follows (in thousands):

2008	\$ 1,602
2009	1,600
2010	2,708
2011	11
	\$ 5,921

## 6. RELATED PARTY TRANSACTIONS

In May 2006, the Company repaid \$5.0 million of subordinated debt under the Junior Credit Facility, and in May 2007, the Company repaid the remaining \$5.0 million principal balance under the Junior Credit Facility. These payments were approved by the Audit Committee of the Company's Board of Directors and by the full Board of Directors with Mr. Miller abstaining due to his personal interest in the transactions. With such payments, all loans from Mr. Miller to the Company were paid in full. In July 2007, in connection with the amendments to the Company's Senior Credit Agreement, the Junior Credit Facility was terminated.

The Company paid approximately \$0 and \$115,000 in interest expense on the Junior Credit Facility for the three months ended September 30, 2007 and 2006; and \$228,000 and \$570,000 for the nine months ended September 30, 2007 and 2006, respectively. Additionally, approximately \$39,000 is included in accrued liabilities for unpaid interest on the Junior Credit Facility at December 31, 2006.

## 7. STOCK-BASED COMPENSATION

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payment" using the modified prospective transition method. This statement requires the determination of the fair-value of stock-based compensation at the grant date and the recognition of the related expense over the period in which the stock-based compensation vests. For the three months ended September 30, 2007 and 2006, the Company recorded \$77,000 in compensation expense related to its stock-based compensation. For the nine months ended September 30, 2007 and 2006, \$231,000 was recorded for stock-based compensation. The stock-based compensation expense is included in selling, general and administrative expenses in the accompanying condensed consolidated statements of income.

Prior to the adoption of SFAS No. 123R, the Company accounted for stock-based compensation in accordance with Accounting Principles Bulletin (APB) No. 25, "Accounting for Stock Issued to Employees." Under the provisions of APB No. 25, no compensation expense is recorded when the terms of the grant are fixed and the option exercise prices are equal to the market value of the common stock on the date of the grant. Disclosure-only provisions of SFAS No. 123 "Accounting for Stock-Based Compensation" were adopted.

The Company did not issue any stock options during the nine months ended September 30, 2007. As of September 30, 2007, the Company had \$154,000 of unrecognized compensation expense related to stock options, with \$77,000 to be expensed during the remainder of 2007, and \$77,000 to be expensed in 2008. The Company issued approximately 75,000 shares of common stock during the nine months ended September 30, 2007 from the exercise of stock options. For additional disclosures related to the Company's stock-based compensation refer to Notes 2 and 5 of the Notes to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

## 8. COMMITMENTS AND CONTINGENCIES

### Commitments

The Company has entered into arrangements with third-party lenders where it has agreed, in the event of default by a customer, to repurchase from the third-party lender Company products repossessed from the customer. These arrangements are typically subject to a maximum repurchase amount. The Company's risk under these arrangements is mitigated by the value of the products repurchased as part of the transaction. The maximum amount of collateral that the Company could be required to purchase was approximately \$32.5 million at September 30, 2007, and \$27.5 million at December 31, 2006.

At September 30, 2007, the Company had commitments of approximately \$2.6 million for construction and acquisition of property and equipment, all of which is expected to be incurred in the remainder of 2007.

### Contingencies

The Company is, from time to time, a party to litigation arising in the normal course of its business. Litigation is subject to various inherent uncertainties, and it is possible that some of these matters could be resolved unfavorably to the Company, which could result in substantial damages against the Company. The Company has established accruals for matters that are probable and reasonably estimable and maintains product liability and other insurance that management believes to be adequate. Management believes that any liability that may ultimately result from the resolution of these matters in excess of available insurance coverage and accruals will not have a material adverse effect on the consolidated financial position or results of operations of the Company.

## 9. INCOME TAXES

Before the fourth quarter of 2006, the Company maintained a valuation allowance reflecting the Company's recognition that cumulative losses in recent years indicated that it was unclear whether certain future tax benefits would be realized as a result of future taxable income. In the fourth quarter of 2006, the Company concluded that the valuation allowance on the deferred tax asset was no longer necessary given the Company's sustained income and growth throughout the year and the favorable projected earnings outlook. A tax benefit of \$8.8 million was recognized in the fourth quarter of 2006 as a result of the reversal of the valuation allowance.

## 10. COMPREHENSIVE INCOME

The Company had comprehensive income of \$3.9 million and \$6.8 million for the three months ended September 30, 2007 and 2006, respectively; and \$14.5 million and \$19.3 million for the nine months ended September 30, 2007 and 2006, respectively. Components of the Company's other comprehensive income consist primarily of foreign currency translation adjustments.

## 11. GEOGRAPHIC AND CUSTOMER INFORMATION

Net sales and long-lived assets (property, plant and equipment and goodwill and intangible assets) by region was as follows (revenue is attributed to regions based on the locations of customers) (in thousands):

	For the Three Months Ended September		For the Nine Months Ended September	
	2007	2006	2007	2006
<b>Net Sales:</b>				
North America	\$ 70,968	\$ 87,057	\$ 256,029	\$ 238,109

Foreign	<b>21,724</b>	20,307	<b>59,491</b>	54,614
	\$ <b>92,692</b>	\$ 107,364	\$ <b>315,520</b>	\$ 292,723

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	<b>September 30, 2007</b>	<b>December 31, 2006</b>
<b>Long Lived Assets:</b>		
North America	\$ 41,540	\$ 36,455
Foreign	2,964	2,691
	<b>\$ 44,504</b>	<b>\$ 39,146</b>

No single customer accounted for 10% or more of consolidated net sales for the three and nine months ended September 30, 2007 and 2006.

## **12. DISCONTINUED OPERATIONS**

In 2002, the Company's management and board of directors made the decision to divest of its remaining towing services segment, as well as the operations of the distribution group of the towing and recovery equipment segment. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets," the assets for the towing services segment and the distribution group are considered a "disposal group" and are no longer being depreciated.

In October 2005, the Company's subsidiary, RoadOne, Inc., filed for liquidation under Chapter 7 of the federal bankruptcy laws in the Bankruptcy Court of the Eastern District of Tennessee and a trustee was appointed. In December 2006, the trustee's final report was approved by the United States trustee, and the final decree of the court was entered on June 19, 2007. Upon RoadOne, Inc.'s liquidation from bankruptcy, the Company recognized a pre-tax, non-cash gain on deconsolidation of RoadOne, Inc., in the amount of \$126,000. In addition, a tax benefit of \$18,244,000 was recognized in 2006 related to deductible losses from excess tax basis of advances to and investments in certain discontinued operations.

## **13. RECENT ACCOUNTING PRONOUNCEMENTS**

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS No. 157"). SFAS No. 157 provides a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures regarding fair value measurements and the effect on earnings. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those fiscal years. We are in the process of evaluating the impact SFAS No. 157 will have on the Company's financial statements.

In June 2006, the FASB issued FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an interpretation of FASB Statement No. 109" ("FIN 48"). FIN 48 clarifies the accounting for uncertainty in income taxes by prescribing a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also gives guidance on derecognition, classification, interest and penalties, accounting in interim periods, and disclosure. FIN 48 was effective on January 1, 2007 and did not have a material impact on the Company's financial statements.

In February 2007, the FASB issued a Statement of Financial Accounting Standards No. 159 (SFAS 159), "The Fair Value Option for Financial Assets & Financial Liabilities – Including an Amendment of SFAS No. 115." SFAS 159 will create a fair value option under which an entity may irrevocably elect fair value as the initial and subsequent measurement attribute for certain financial assets and liabilities on a contract by contract basis, with changes in fair values recognized in earnings as these changes occur. SFAS 159 will become effective for fiscal years beginning after November 15, 2007. We are currently reviewing the impact of SFAS 159 on our financial statements and expect to complete this evaluation in 2007. We will adopt this new accounting standard on January 1, 2008.



## **ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

### **Executive Overview**

Miller Industries, Inc. is the world's largest manufacturer of vehicle towing and recovery equipment, with domestic manufacturing subsidiaries in Tennessee and Pennsylvania, and foreign manufacturing subsidiaries in France and the United Kingdom. We offer a broad range of equipment to meet our customers' design, capacity and cost requirements under our Century<sup>®</sup>, Vulcan<sup>®</sup>, Challenger<sup>®</sup>, Holmes<sup>®</sup>, Champion<sup>®</sup>, Chevron<sup>™</sup>, Eagle Titan<sup>®</sup>, Jige<sup>™</sup> and Boniface<sup>™</sup> brand names.

Overall, management focuses on a variety of key indicators to monitor our operating and financial performance. These indicators include measurements of revenue, operating income, gross margin, income from operations, earnings per share, capital expenditures and cash flow.

We derive revenues primarily from product sales made through our network of domestic and foreign independent distributors. Our revenues are sensitive to a variety of factors, such as demand for, and price of, our products, our technological competitiveness, our reputation for providing quality products and reliable service, competition within our industry, the cost of raw materials (including aluminum, steel and petroleum related products) and general economic conditions.

Our industry is cyclical in nature and the overall demand for our products and our resulting revenues have been affected historically by levels of consumer confidence, interest rates, fuel costs, insurance costs, and economic conditions in general. During the second quarter of 2007, we completed several municipal and military orders but with only a small number of additional orders received under those contracts during the third quarter of 2007, our order intake has moderated. We expect this decrease to cause net sales for the remainder of 2007 to be lower than those achieved during the past several quarters. We remain optimistic about our ability to secure additional follow-on orders, but we cannot predict the success or the timing of any such orders under these contracts. We continue to be concerned about general economic conditions and the effect they could have on the towing and recovery industry. Accordingly, we continue to take steps to reduce our production levels and lower our costs for the remainder of the year in response to these uncertainties. We will continue to monitor our cost structure to ensure that it remains in line with business conditions.

In addition, we have been and will continue to be affected by increases in the prices that we pay for raw materials, particularly aluminum, steel, petroleum-related products and other raw materials. Raw material costs represent a substantial part of our total costs of operations, and management expects aluminum and steel prices to remain at historically high levels for the foreseeable future. As we determined necessary, we implemented price increases to offset these higher costs. We also began to develop alternatives to the components used in our production process that incorporate these raw materials, and continued this development during the third quarter of 2007. We have shared several of these alternatives with our major component part suppliers, some of whom have begun to implement them in the production of our component parts. We continue to monitor raw material prices and availability in order to more favorably position the Company in this dynamic market.

In July 2007, we amended our Senior Credit Agreement with Wachovia to, among other things, reduce the non-default rate of interest under the revolving and term portions of our senior credit facility, increase the ratio of leverage permitted under the Consolidated Leverage Ratio covenant, extend the maturity date of the revolver, and modify certain of the negative covenants and events of default. Total senior debt at September 30, 2007 was \$3.9 million, which represents a significant decrease in our overall indebtedness from prior periods.

In May 2007, we repaid the remaining \$5.0 million principal balance under our junior credit facility and with such payment, all loans under our junior credit facility were paid in full. In July 2007, in connection with the amendments to our Senior Credit Agreement, the junior credit facility was terminated.

Interest expense consists primarily of interest on bank debt, chassis purchases and distributor floor plan financing. Despite reduced levels of bank debt, total interest expense increased to \$1.0 million in the third quarter of 2007 from \$0.9 million in the comparable year-ago period. This was due to an increase in interest on chassis purchases, together with fairly constant floor plan interest expense partially offset by substantially reduced interest on bank debt. The interest on chassis purchases resulted from increased purchases of chassis in advance of implementation of new emissions standards for 2008 models.

During 2006, we reversed our deferred tax valuation allowance. As a result of our positive earnings, the favorable projected earnings outlook as well as the improvements in overall financial position, we determined that it is more likely than not that the deferred tax asset will be realized. Additionally, we recognized a tax benefit related to losses from advances to and investments in certain discontinued operations.

We are currently modernizing and expanding our manufacturing facilities in Ooltewah, Tennessee and Hermitage, Pennsylvania and expect these projects to continue through 2007. In addition, we are considering modernization and expansion projects at our other manufacturing facilities. We believe these modernization and expansion efforts will position us to more effectively face the challenges of the global marketplace in the future.

### **Discontinued Operations**

During 2002, management and the board of directors made the decision to divest of our towing services segment, as well as the operations of the distribution group of our towing and recovery equipment segment. In accordance with SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets", the assets of the towing services segment and the distribution group were considered a "disposal group" and were no longer depreciated. All assets and liabilities and results of operations associated with these assets were separately presented in the accompanying financial statements. The analyses contained herein are of continuing operations unless otherwise noted.

In general, the customary operating liabilities of these disposed businesses were assumed by the new owners. Our subsidiaries that sold these businesses are nevertheless subject to some continuing liabilities with respect to their pre-sale operations, including, for example, liabilities related to litigation, certain trade payables, workers compensation and other insurance, surety bonds, and real estate. Except in the case of direct guarantees, these are not obligations of Miller Industries, Inc. and Miller Industries, Inc. has taken and would expect to take whatever steps it deems appropriate to protect itself from any such liabilities.

In October 2005, RoadOne, Inc. filed for liquidation under Chapter 7 of the federal bankruptcy laws in the Bankruptcy Court of the Eastern District of Tennessee and a trustee was appointed. In December 2006, the trustee's final report was approved by the United States trustee, and the final decree of the court was entered on June 19, 2007. Upon RoadOne, Inc.'s liquidation from bankruptcy, we recognized a pre tax, non-cash gain on deconsolidation of RoadOne, Inc., in the amount of \$126,000. In addition, a tax benefit of \$18,244,000 was recognized in 2006 related to deductible losses from excess tax basis of advances to and investments in certain discontinued operations.

### **Critical Accounting Policies**

Our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America, which require us to make estimates. Certain accounting policies are deemed "critical," as they require management's highest degree of judgment, estimates and assumptions. A discussion of critical accounting policies, the judgments and uncertainties affecting their application and the likelihood that materially different amounts would be reported under different conditions or using different assumptions follows:

#### ***Accounts receivable***

We extend credit to customers in the normal course of business. Collections from customers are continuously monitored and an allowance for doubtful accounts is maintained based on historical experience and any specific customer collection issues. While such bad debt expenses have historically been within expectations and the allowance established, there can be no assurance that we will continue to experience the same credit loss rates as in the past.



### ***Valuation of long-lived assets and goodwill***

Long-lived assets and goodwill are reviewed for impairment whenever events or circumstances indicate that the carrying amount of these assets may not be fully recoverable. When a determination has been made that the carrying amount of long-lived assets and goodwill may not be fully recovered, the amount of impairment is measured by comparing an asset's estimated fair value to its carrying value. The determination of fair value is based on projected future cash flows discounted at a rate determined by management or, if available, independent appraisals or sales price negotiations. The estimation of fair value includes significant judgment regarding assumptions of revenue, operating costs, interest rates, property and equipment additions and industry competition and general economic and business conditions among other factors. We believe that these estimates are reasonable, however, changes in any of these factors could affect these evaluations. Based on these estimations, we believe that our long-lived assets are appropriately valued.

### ***Warranty Reserves***

We estimate expense for product warranty claims at the time products are sold. These estimates are established using historical information about the nature, frequency and average cost of warranty claims. We review trends of warranty claims and take actions to improve product quality and minimize warranty claims. We believe the warranty reserve is adequate, however, actual claims incurred could differ from the original estimates, requiring adjustments to the accrual.

### ***Income taxes***

We recognize deferred tax assets and liabilities based on differences between the financial statement carrying amounts and the tax bases of assets and liabilities. Differences between the effective tax rate and the expected tax rate are due primarily to losses from advances to and investments in certain discontinued operations and changes in deferred tax asset valuation allowances. We consider the need to record a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized. We consider tax loss carryforwards, reversal of deferred tax liabilities, tax planning and estimates of future taxable income in assessing the need for a valuation allowance.

In the fourth quarter of 2006, we reversed our deferred tax valuation allowance. As a result of our positive earnings, our favorable projected earnings outlook as well as the improvements in our overall financial position, we determined that it is more likely than not that the deferred tax asset will be realized. The Company recognized a net deferred tax asset of \$18.2 million as of December 31, 2006, which includes the \$8.8 million recognized as a result of the reversal of the valuation allowance.

### ***Revenues***

Under our accounting policies, revenues are recorded when risk of ownership has transferred to independent distributors or other customers, which generally occurs on shipment. While we manufacture only the bodies of wreckers, which are installed on truck chassis manufactured by third parties, we frequently purchase the truck chassis for resale to our customers. Sales of company-purchased truck chassis are included in net sales. Margins are substantially lower on completed recovery vehicles containing company-purchased chassis because the markup over the cost of the chassis is nominal.

### ***Foreign Currency Translation***

The functional currency for our foreign operations is the applicable local currency. The translation from the applicable foreign currencies to U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date, historical rates for equity and the weighted average exchange rate during the period for

revenue and expense accounts. The gains or losses resulting from such translations are included in shareholders' equity. For intercompany debt denominated in a currency other than the functional currency, the remeasurement into the functional currency is also included in shareholders' equity as the amounts are considered to be of a long-term investment nature.

**Results of Operations—Three Months Ended September 30, 2007 Compared to Three Months Ended September 30, 2006**

Net sales for the three months ended September 30, 2007 decreased 13.7% to \$92.7 million from \$107.4 million for the comparable period in 2006. This decrease was attributable primarily to the small number of additional orders received during the third quarter of 2007 under certain governmental and military contracts for which orders were completed in 2006 and during the first two quarters of 2007.

Costs of operations for the three months ended September 30, 2007 decreased 13.7% to \$79.6 million from \$92.2 million for the comparable period in 2006, which was attributable to lower production levels in 2007 compared to 2006 as described above. Overall, costs of operations remained constant at 85.9%.

Selling, general and administrative expenses for the three months ended September 30, 2007 decreased to \$6.5 million from \$6.6 million for the three months ended September 30, 2006. As a percentage of sales, selling, general and administrative expenses increased to 7.0% for the three months ended September 30, 2007 from 6.2% for the three months ended September 30, 2006 due to increases in personnel-related expenses and other expenses spread over lower sales and production volume.

The provision for income taxes for the three months ended September 30, 2007 and 2006 reflects the combined effective U.S. federal, state and foreign tax rate of 35.2% and 12.6%, respectively.

Our total interest expense increased to \$1.0 million for the three months ended September 30, 2007 from \$0.9 million for the comparable year-ago period. Increases in interest expense were primarily the result of increases in interest on chassis purchases together with distributor floor plan interest expense.

**Results of Operations—Nine Months Ended September 30, 2007 Compared to Nine Months Ended September 30, 2006**

Net sales for the nine months ended September 30, 2007 increased 7.8% to \$315.5 million from \$292.7 million for the comparable period in 2006. This increase was attributable to increases in order levels during 2006 and in the first and second quarter of 2007 as a result of increased demand for our products, offset by lower order levels and sales in the third quarter of 2007 as described above.

Costs of operations for the nine months ended September 30, 2007 increased 8.4% to \$270.5 million from \$249.6 million for the comparable period in 2006, which was attributable to increases in demand and production. Overall, costs of operations increased slightly as a percentage of sales from 85.3% to 85.7% because of product mix as well as higher raw material costs, partially offset by past pricing actions.

Selling, general and administrative expenses for the nine months ended September 30, 2007 increased to \$20.7 million from \$19.6 million for the nine months ended September 30, 2006. The increase is attributable to increases in personnel-related expenses and other expenses associated with higher sales volume. As a percentage of sales, selling, general and administrative expenses decreased to 6.6% for the nine months ended September 30, 2007 from 6.7% for the nine months ended September 30, 2006.

The provision for income taxes for the nine months ended September 30, 2007 and 2006 reflects the combined effective U.S. federal, state and foreign tax rate of 36.3% and 13.2%, respectively.

Our total interest expense decreased to \$2.6 million for the nine months ended September 30, 2007 from \$2.7 million for the comparable year-ago period. Decreases in interest expense were primarily the result of lower debt levels offset by increases in interest on chassis purchases together with distributor floor plan interest expense.

### **Liquidity and Capital Resources**

Cash provided by operating activities was \$15.4 million for the nine months ended September 30, 2007, compared to \$6.9 million for the comparable period in 2006. The cash provided by operating activities for the nine months ended September 30, 2007 reflects strong profitability coupled with decreases in accounts receivable and inventory and the utilization of our deferred tax assets, partially offset by decreases in accounts payable primarily related to the timing and terms of vendor payments.

Cash used in investing activities was \$6.9 million for the nine months ended September 30, 2007, compared to \$6.4 million for the comparable period in 2006. The cash used in investing activities was for the purchase of property, plant and equipment.

Cash used in financing activities was \$5.7 million for the nine months ended September 30, 2007 compared to \$2.6 million for the comparable period in the prior year. The cash used in financing activities was used to make payments on our term loan under our senior credit facility, to repay our remaining subordinated debt, and to repay other outstanding long-term debt.

Over the past year, we generally have used available cash flow from operations to reduce the outstanding balance on our credit facilities, to pay down other long-term debt and to pay for capital expenditures related to our plant modernization. In addition, our working capital requirements have been and will continue to be significant in connection with shifts in product mix to meet changes in customer demand.

We are modernizing and expanding our manufacturing facilities in Ooltewah, Tennessee and Hermitage, Pennsylvania. The cost of these projects is anticipated to be approximately \$14.0 million. At September 30, 2007, the Company had commitments of approximately \$2.6 million for these projects, all of which is expected to be incurred in the remainder of 2007. We expect to fund these projects from cash flows from operations and unused availability under our senior credit facility.

In May 2006, we repaid \$5.0 million of subordinated debt under our junior credit facility using additional borrowings under the revolving portion of our senior credit facility, and in May 2007, we repaid the remaining \$5.0 million principal balance of our junior credit facility.

In addition to our modernization and expansion, our primary cash requirements include working capital, capital expenditures and interest and principal payments on indebtedness under our senior credit facility. We expect our primary sources of cash to be cash flow from operations, cash and cash equivalents on hand at September 30, 2007 and borrowings from unused availability under our senior credit facility. We expect these sources to be sufficient to satisfy our cash needs for the remainder of 2007.

## **Credit Facilities and Other Obligations**

### ***Senior Credit Facility***

We are party to a Credit Agreement with Wachovia Bank, National Association, for a \$27.0 million senior secured credit facility. The senior credit facility consists of a \$20.0 million revolving credit facility, and a \$7.0 million term loan. The senior credit facility is secured by substantially all of our assets, and contains customary representations and warranties, events of default and affirmative and negative covenants for secured facilities of this type. On July 11, 2007, we agreed with Wachovia to make certain amendments to the Senior Credit Agreement which are described below.

Formerly, in the absence of a default, all borrowings under the revolving credit facility bore interest at the LIBOR Market Index Rate (as defined in the Credit Agreement) plus a margin of between 1.75% to 2.50% per annum that was subject to adjustment from time to time based upon the Consolidated Leverage Ratio (as defined in the Credit Agreement), and the term loan bore interest at a 30-day adjusted LIBOR rate plus a margin of between 1.75% to 2.50% per annum that was subject to adjustment from time to time based upon the Consolidated Leverage Ratio. The revolving credit facility was scheduled to expire on June 15, 2008, and the Term Loan was scheduled to mature on June 15, 2010.



Under the amended Credit Agreement, the non-default rate of interest under the revolving credit facility and term loan was reduced to be the LIBOR Market Index Rate plus a margin of between 0.75% to 1.50% per annum that is subject to adjustment from time to time based upon the Consolidated Leverage Ratio, and the maturity date of the revolving credit facility was extended to June 17, 2010. The amendments also increased the ratio of leverage permitted under the Consolidated Leverage Ratio covenant, and extended and modified certain of the negative covenants and events of default set forth in the Credit Agreement.

At September 30, 2007 and December 31, 2006, we had no outstanding borrowings under the revolving credit facility.

### ***Junior Credit Facility***

In May 2006, we repaid \$5.0 million of subordinated debt under our junior credit facility with William G. Miller, and in May 2007, we repaid the remaining \$5.0 million principal balance under the junior credit facility. With such payments, all loans under our junior credit facility were paid in full. In July 2007, in connection with the amendments to the Credit Agreement for our senior credit facility, the junior credit facility was terminated.

### ***Interest Rate Sensitivity***

Because of the amount of obligations outstanding under our senior credit facility and the connection of the interest rate under such facility (including the default rates) to the LIBOR rate, an increase in the LIBOR rate could have an effect on our ability to satisfy our obligations under this facility and increase our interest expense. Therefore, our liquidity and access to capital resources could be further affected by increasing interest rates.

### ***Other Long-Term Obligations***

In addition to the borrowings under the senior credit facility described above, we had approximately \$2.1 million of mortgage notes payable, equipment notes payable and other long-term obligations at September 30, 2007. We also had approximately \$2.2 million in non-cancelable operating lease obligations.

## **ITEM 4. CONTROLS AND PROCEDURES**

Within 90 days prior to the filing date of this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Co-Chief Executive Officers (Co-CEOs) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules 13a14(c) under the Securities Exchange Act of 1934. Based upon this evaluation, our Co-CEOs and CFO have concluded that the disclosure controls and procedures are effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act are recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms.

There were no significant changes in our internal controls or in other factors that could significantly affect internal controls subsequent to the date of this evaluation.

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

We are, from time to time, a party to litigation arising in the normal course of our business. Litigation is subject to various inherent uncertainties, and it is possible that some of these matters could be resolved unfavorably to us, which could result in substantial damages against us. We have established accruals for matters that are probable and reasonably estimable and maintain product liability and other insurance that management believes to be adequate. Management believes that any liability that may ultimately result from the resolution of these matters in excess of available insurance coverage and accruals will not have a material adverse effect on our consolidated financial position or results of operations.

### ITEM 1A. RISK FACTORS

There have been no material changes to the Risk Factors included in our Annual Report on Form 10-K for the fiscal year ended December 31, 2006.

### ITEM 5. OTHER INFORMATION

On November 5, 2007, the Board of Directors approved and adopted Amended and Restated Bylaws of the Company, which include amendments to Article IV thereof to expressly provide for the ability to issue uncertificated shares. These amendments are intended to comply with Rule 501.00 of the New York Stock Exchange Listed Company Manual which requires issuers to be eligible for a direct registration program that permits an investor's ownership to be recorded and maintained on the books of the issuer or its transfer agent without the issuance of a physical stock certificate.

### ITEM 6. EXHIBITS

- 3.1 Charter, as amended, of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K, filed with the Commission on April 22, 2002)
- 3.2 Amended and Restated Bylaws of the Registrant\*
- 31.1 Certification Pursuant to Rules 13a-14(a)/15d-14(a) by Co-Chief Executive Officer\*
- 31.2 Certification Pursuant to Rules 13a-14(a)/15d-14(a) by Co-Chief Executive Officer\*
- 31.3 Certification Pursuant to Rule 13a-14(a)/15d-14(a) by Chief Financial Officer\*
- 32.1 Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of United States Code by Co-Chief Executive Officer\*
- 32.2 Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of United States Code by Co-Chief Executive Officer\*
- 32.3 Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of United States Code by Chief Financial Officer\*

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\* Filed herewith

**SIGNATURES**

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, Miller Industries, Inc. has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

MILLER INDUSTRIES, INC.

By: /s/ J. Vincent Mish  
J. Vincent Mish  
Executive Vice President and Chief Financial  
Officer

Date: November 8, 2007