

MILLER INDUSTRIES INC /TN/  
Form 10-Q  
November 04, 2015

**UNITED STATES  
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  
<sup>x</sup>1934

For the quarterly period ended September 30, 2015

..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 001-14124

**MILLER INDUSTRIES, INC.**  
(Exact name of registrant as specified in its charter)

**Tennessee** **62-1566286**  
(State or other jurisdiction of incorporation or (I.R.S. Employer Identification No.)  
organization)

**8503 Hilltop Drive**  
**Ooltewah, Tennessee** **37363**  
(Address of principal executive offices) (Zip Code)

**(423) 238-4171**

(Registrant's telephone number, including area code)

**Not Applicable**

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

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 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  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:

Large accelerated filer  Accelerated filer

Non-accelerated filer  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

The number of shares outstanding of the registrant's common stock, par value \$.01 per share, as of October 30, 2015 was 11,341,150.



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

	<b>September 30,</b>	December
	<b>2015</b>	31,
	<b>(Unaudited)</b>	2014
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and temporary investments	\$ 40,965	\$ 39,597
Accounts receivable, net of allowance for doubtful accounts of \$1,778 and \$1,850 at September 30, 2015 and December 31, 2014, respectively	115,424	116,498
Inventories	64,482	56,460
Prepaid expenses	2,512	1,792
Current deferred income taxes	4,023	4,083
Total current assets	227,406	218,430
PROPERTY, PLANT, AND EQUIPMENT, net	34,791	32,050
GOODWILL	11,619	11,619
OTHER ASSETS	499	256
	<b>\$ 274,315</b>	<b>\$ 262,355</b>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 76,693	\$ 70,618
Accrued liabilities	22,224	21,099
Total current liabilities	98,917	91,717
DEFERRED INCOME TAX LIABILITIES	2,184	2,184
<b>COMMITMENTS AND CONTINGENCIES (Notes 6 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, 11,341,150 and 11,302,530, outstanding at September 30, 2015 and December 31, 2014, respectively	113	113
Additional paid-in capital	150,305	149,917
Retained earnings	26,482	19,822

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Accumulated other comprehensive income (loss)	(3,686	)	(1,398	)
Total Shareholders' equity	173,214		168,454	
	\$ 274,315		\$ 262,355	

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 September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
NET SALES	\$126,205	\$118,398	\$404,530	\$344,998
COSTS OF OPERATIONS	113,409	105,431	362,241	308,583
GROSS PROFIT	12,796	12,967	42,289	36,415
OPERATING EXPENSES:				
Selling, general and administrative expenses	7,524	7,231	22,612	21,361
Interest expense, net	291	178	699	374
Other (income) expense, net	(94)	31	227	148
Total operating expenses	7,721	7,440	23,538	21,883
INCOME BEFORE INCOME TAXES	5,075	5,527	18,751	14,532
INCOME TAX PROVISION	1,907	2,033	6,653	5,351
NET INCOME	3,168	3,494	12,098	9,181
NET LOSS ATTRIBUTABLE TO NONCONTROLLING INTERESTS	-	-	-	66
NET INCOME ATTRIBUTABLE TO MILLER INDUSTRIES, INC.	\$3,168	\$3,494	\$12,098	\$9,247
BASIC INCOME PER COMMON SHARE	\$0.28	\$0.31	\$1.07	\$0.82
DILUTED INCOME PER COMMON SHARE	\$0.28	\$0.31	\$1.07	\$0.82
CASH DIVIDENDS DECLARED PER COMMON SHARE	\$0.16	\$0.15	0.48	\$0.45
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	11,341	11,302	11,329	11,296
Diluted	11,368	11,354	11,367	11,354

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





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

**(In thousands)**  
**(Unaudited)**

	Three Months Ended September 30		Nine Months Ended September 30	
	2015	2014	2015	2014
net income	\$ 3,168	\$ 3,494	\$ 12,098	\$ 9,181
Other comprehensive income (loss):				
Foreign currency translation adjustment	441	(876 )	(2,288 )	(711 )
Derivative instrument and hedging activities	-	52	-	127
Reclassification from accumulated other comprehensive income (loss)	-	5	-	165
Total other comprehensive income (loss)	441	(819 )	(2,288 )	(419 )
comprehensive income	3,609	2,675	9,810	8,762
Net loss attributable TO noncontrolling interests	-	-	-	66
Comprehensive income attributable to Miller Industries, Inc.	\$ 3,609	\$ 2,675	\$ 9,810	\$ 8,828

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)

	Nine Months Ended September 30	
	2015	2014
<b>OPERATING ACTIVITIES:</b>		
Net income	\$12,098	\$9,181
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	3,038	2,858
Loss on deconsolidation of subsidiary	-	83
Provision for doubtful accounts	185	158
Excess tax benefit from stock-based compensation	(106 )	(22 )
Issuance of non-employee director shares	96	96
Deferred income tax provision	60	(155 )
Changes in operating assets and liabilities:		
Accounts receivable	(215 )	(18,412 )
Inventories	(8,599 )	(11,598 )
Prepaid expenses	(773 )	(846 )
Other assets	(244 )	-
Accounts payable	6,691	18,583
Accrued liabilities	1,556	2,510
Net cash flows from operating activities	13,787	2,436
<b>INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(5,877 )	(3,698 )
Payments received on notes receivable	1	23
Net cash flows from investing activities	(5,876 )	(3,675 )
<b>FINANCING ACTIVITIES:</b>		
Payments of cash dividends	(5,438 )	(5,083 )
Proceeds from stock option exercises	186	180
Excess tax benefit from stock-based compensation	106	22
Net cash flows from financing activities	(5,146 )	(4,881 )
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND TEMPORARY INVESTMENTS</b>	<b>(1,397 )</b>	<b>(465 )</b>
<b>NET CHANGE IN CASH AND TEMPORARY INVESTMENTS</b>	<b>1,368</b>	<b>(6,585 )</b>
<b>CASH AND TEMPORARY INVESTMENTS, beginning of period</b>	<b>39,597</b>	<b>42,864</b>
<b>CASH AND TEMPORARY INVESTMENTS, end of period</b>	<b>\$40,965</b>	<b>\$36,279</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash payments for interest	\$1,099	\$743
Cash payments for income taxes, net of refunds	\$6,908	\$5,034

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

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

**(Unaudited)**

**(in thousands, except share data and except as otherwise noted)**

**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. Net income (loss) attributable to noncontrolling interests represents the portion of the earnings or losses from the operations of the Company’s consolidated subsidiaries attributable to the interests of unrelated third party equity owners. Net income (loss) attributable to noncontrolling interests is deducted from net income to arrive at net income attributable to Miller Industries, Inc.

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, 2014. The condensed consolidated financial statements include accounts of certain subsidiaries whose fiscal closing dates differ from December 31<sup>st</sup> by 31 days (or less) to facilitate timely reporting. Certain prior year amounts have been reclassified to conform to current year presentation, with no impact on previously reported shareholders’ equity. The Company evaluated subsequent events through the date the financial statements were issued.

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

Basic income per share is computed by dividing net income attributable to Miller Industries, Inc. by the weighted average number of common shares outstanding. Diluted income per share is calculated by dividing net income attributable to Miller Industries, Inc. by the weighted average number of common and potential dilutive common shares outstanding. Diluted income per share takes into consideration the assumed exercise of outstanding stock options resulting in approximately 27,000 and 52,000 potential dilutive common shares for the three months ended September 30, 2015 and 2014, and 38,000 and 58,000 for the nine months ended September 30, 2015 and 2014, respectively. For the three months and nine months ended September 30, 2015 and 2014, none of the outstanding stock options 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 (net realizable value), determined on a first-in, first-out basis. Appropriate consideration is given to obsolescence, valuation and other factors in determining net realizable value. Revisions of these estimates could result in the need for adjustments. Inventories, net of reserves, at September 30, 2015 and December 31, 2014 consisted of the following:

	September 30, 2015	December 31, 2014
Chassis	\$ 4,650	\$ 4,700
Raw materials	29,925	24,291
Work in process	10,658	10,477
Finished goods	19,249	16,992
	\$ 64,482	\$ 56,460

### 4. LONG-LIVED ASSETS

The Company periodically reviews the carrying amount of its long-lived assets 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.

## 5. GOODWILL

Goodwill consists of the excess of cost of acquired entities over the sum of the amounts assigned to identifiable assets acquired less liabilities assumed. Goodwill is not amortized. However, the Company evaluates the carrying value of goodwill for impairment at least annually or if an event or circumstance occurs that would indicate that the carrying amount had been impaired. The Company reviews goodwill for impairment utilizing a qualitative assessment or a two-step process. If we choose to perform a qualitative analysis of goodwill and determine that the fair value more likely than not exceeds the carrying value, no further testing is needed. If we choose the two-step approach or if qualitative analysis determines the carrying value more likely than not exceeds fair value, the first step identifies potential impairment by comparing the fair value of the reporting unit with its carrying value. If the fair value exceeds the carrying value the second step is not necessary. If the carrying value is more than the fair value, the second step of testing is performed to compare the fair value of the goodwill with its carrying value. An impairment loss would be recognized to the extent that the carrying value of the goodwill exceeds its fair value.

## 6. LONG-TERM OBLIGATIONS

### **Credit Facility and Other Long-Term Obligations**

#### *Credit Facility*

On December 30, 2014, the Company entered into an Amended and Restated Loan Agreement with First Tennessee Bank National Association (“First Tennessee”) for a \$25,000 unsecured revolving credit facility (the “Credit Facility”). On June 11, 2015, the Company entered into the First Amendment to Amended and Restated Loan Agreement with First Tennessee, pursuant to which the maturity date of the Credit Facility was renewed and extended from March 31, 2017 to March 31, 2018, and the maximum amount of the Credit Facility was increased by \$5,000 from \$25,000 to \$30,000. The Credit Facility contains customary representations and warranties, events of default, and financial, affirmative and negative covenants for loan agreements of this kind. Covenants under the Credit Facility restrict the payment of cash dividends if the Company would be in violation of the minimum tangible net worth test or the leverage ratio test in the current loan agreement as a result of the dividends, among various other restrictions.

In the absence of a default, all borrowings under the Credit Facility bear interest at the LIBOR Rate plus 1.50% per annum. The Company will pay a non-usage fee under the current loan agreement in an annual amount between 0.15% and 0.35% of the unused amount of the Credit Facility, which fee shall be paid quarterly.

At September 30, 2015 and December 31, 2014, the Company had no outstanding borrowings under the Credit Facility.

### ***Interest Rate Risk***

Changes in interest rates affect the interest paid on indebtedness under the Credit Facility because outstanding amounts of indebtedness under the Credit Facility are subject to variable interest rates. Under the Credit Facility, the non-default rate of interest was equal to the LIBOR Market Index Rate plus 1.50% per annum (for a rate of interest of 1.69% at September 30, 2015). Because there were no amounts outstanding under the Credit Facility, a one percent change in the interest rate on our variable-rate debt would not have a material impact on our financial position, results of operations or cash flows for the three-month period ended September 30, 2015.

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

At September 30, 2015, the Company had approximately \$1,723 in non-cancelable operating lease obligations.

## **7. STOCK-BASED COMPENSATION**

The Company did not issue any stock options during the three months ended September 30, 2015. For additional disclosures related to the Company's stock-based compensation refer to Notes 2 and 4 of the Notes to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

During the three months ended September 30, 2015, options were exercised for the purchase of 1,000 shares of common stock at a weighted-average exercise price of \$5.49. No options were exercised during the three months ended September 30, 2014. During the nine months ended September 30, 2015 and 2014, options were exercised for the purchase of 34,000 shares of common stock at a weighted-average exercise price of \$5.49 and 30,697 shares of common stock at a weighted-average exercise price of \$5.87, respectively.



## 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 maximum amount of collateral that the Company could be required to purchase was approximately \$40,047 at September 30, 2015, and \$31,458 at December 31, 2014. However, the Company's risk under these arrangements is mitigated by the value of the products that would be repurchased as part of the transaction. The Company considered the fair value at inception of its liability under these arrangements and concluded that the liability associated with these potential repurchase obligations is not material and not probable at September 30, 2015.

At September 30, 2015, the Company had commitments of approximately \$14,386 for construction and acquisition of property, plant and equipment. The Company is in the process of consolidating and expanding its Pennsylvania manufacturing operations to increase capacity and improve operating efficiencies. The plan includes consolidating primary manufacturing operations at one location while plans for the remaining plant location continue to be evaluated. The current estimated costs of this project are approximately \$22,700, including machinery and equipment, buildings and improvements and land. Approximately \$4,715 of these costs were incurred as of September 30, 2015 and are included in property, plant and equipment, net on the condensed consolidated balance sheets. The remainder of these costs is expected to be incurred in the last quarter of 2015 and during 2016. The timing and costs of the project are subject to change. We do not anticipate any employee severance costs or any material relocation expense associated with the consolidation since the two existing facilities are very close to each other. The Company also intends to engage in several capital projects, including machinery and equipment and building improvements at its Ooltewah, Tennessee facility that it estimates will cost approximately \$10,000 over the next year.

### 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

At September 30, 2015 and December 31, 2014, the Company had no unrecognized income tax positions recorded. The Company does not expect its unrecognized tax positions to change significantly in the next twelve months. If unrecognized tax positions existed, the interest and penalties related to the unrecognized tax positions would be recorded as income tax expense in the condensed consolidated statements of income.

The Company is subject to United States federal income taxes, as well as income taxes in various states and foreign jurisdictions. The Company's tax years 2012 through 2014 remain open to examination for U.S. federal income taxes. With few exceptions, the Company is no longer subject to state or non-U.S. income tax examinations prior to 2012.

## 10. SHAREHOLDERS EQUITY

### Dividends

Prior to March 2010, we had never declared cash dividends on our common stock. On March 8, 2010, our board of directors adopted a dividend policy to consider and pay annual cash dividends subject to our ability to satisfy all applicable statutory and regulatory requirements and our continued financial strength. On May 10, 2011, the Company's board of directors approved a dividend policy to consider and pay quarterly dividends on its common stock subject to the Company's ability to satisfy all applicable statutory requirements and the Company's continued financial strength, replacing the previous policy of paying annual cash dividends. Dividend payments made for 2015, 2014, 2013 and 2012 were as follows:

Payment	Record Date	Payment Date	Dividend (per share)	Amount
Q1 2012	March 19, 2012	March 26, 2012	\$ 0.13	\$ 1,437
Q2 2012	June 18, 2012	June 25, 2012	0.13	1,439
Q3 2012	September 17, 2012	September 24, 2012	0.13	1,439
Q4 2012	December 10, 2012	December 17, 2012	0.13	1,447
Total for 2012			\$ 0.52	\$ 5,762
Q1 2013	March 18, 2013	March 25, 2013	\$ 0.14	\$ 1,569
Q2 2013	June 17, 2013	June 24, 2013	0.14	1,573
Q3 2013	September 16, 2013	September 23, 2013	0.14	1,575
Q4 2013	December 9, 2013	December 16, 2013	0.14	1,577
Total for 2013			\$ 0.56	\$ 6,294
Q1 2014	March 17, 2014	March 24, 2014	\$ 0.15	\$ 1,692
Q2 2014	June 16, 2014	June 23, 2014	0.15	1,695
Q3 2014	September 15, 2014	September 22, 2014	0.15	1,696
Q4 2014	December 8, 2014	December 15, 2014	0.15	1,695

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Total for 2014			\$ 0.60	\$ 6,778
Q1 2015	March 16, 2015	March 23, 2015	\$ 0.16	\$ 1,809
Q2 2015	June 15, 2015	June 22, 2015	0.16	1,814
Q3 2015	September 14, 2015	September 21, 2015	0.16	1,815
Total for 2015			\$ 0.48	\$ 5,438

On November 2, 2015, the Company's Board of Directors declared a quarterly cash dividend of \$0.16 per share. The dividend is payable December 14, 2015 to shareholders of record as of December 7, 2015.

## 11. GEOGRAPHIC INFORMATION

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

	For the Three Months Ended September 30		For the Nine Months Ended September 30	
	2015	2014	2015	2014
Net Sales:				
North America	\$ 109,451	\$ 99,891	\$ 348,456	\$ 285,555
Foreign	16,754	18,507	56,074	59,443
	\$ 126,205	\$ 118,398	\$ 404,530	\$ 344,998

	September 30, 2015	December 31, 2014
Long Lived Assets:		
North America	\$ 43,854	\$ 41,176
Foreign	2,556	2,493
	\$ 46,410	\$ 43,669

## 12. CUSTOMER INFORMATION

No single customer accounted for 10% or more of consolidated net sales for the three months and nine months ended September 30, 2015 and 2014.

## 13. OTHER (INCOME) EXPENSE

Other (income) expense for the nine months ended September 30, 2015 consisted of a foreign currency transaction loss of \$227. For the nine months ended September 30, 2014 the Company had a loss of \$148, including a loss on

deconsolidation of a subsidiary of \$83 and foreign currency transaction losses of \$65. On February 28, 2014, the Company entered into an agreement to sell all of its interest in the Delavan joint venture to its joint venture partner, which closed on March 31, 2014. Our Greeneville facility has ceased the manufacturing of Delavan products as of the end of the first quarter of 2014 so no further losses from the venture are expected.

#### **14. Fair Value of Financial Instruments**

For assets and liabilities measured at fair value on a recurring and nonrecurring basis, a three-level hierarchy of measurements based upon observable and unobservable inputs is used to arrive at fair value. Observable inputs are developed based on market data obtained from independent sources, while unobservable inputs reflect our assumptions about valuation based on the best information available in the circumstances. Depending on the inputs, we classify each fair value measurement as follows:

Level 1—based upon quoted prices for *identical* instruments in active markets,

Level 2—based upon quoted prices for *similar* instruments, prices for identical or similar instruments in markets that are not active, or model-derived valuations, all of whose significant inputs are observable, and

Level 3—based upon one or more significant unobservable inputs.

The carrying values of cash and temporary investments, accounts receivable, accounts payable and accrued liabilities are reasonable estimates of their fair values because of the short maturity of these financial instruments.

The fair value of derivative assets and liabilities are measured assuming that the unit of account is an individual derivative transaction and that each derivative could be sold or transferred on a stand-alone basis. We classify within Level 2 our forward foreign currency exchange contracts based upon quoted prices for similar instruments that are actively traded. For more information regarding derivatives, see Note 15, *Derivative Financial Instruments*.

#### **15. Derivative Financial Instruments**

The Company periodically enters into foreign currency exchange contracts designed to mitigate the impact of foreign currency risk. In November 2012, the Company adopted a formal foreign currency exchange policy. Under this policy, for those foreign currency exchange contracts that qualify for hedge accounting treatment, changes in the fair value of such instruments are included in accumulated other comprehensive income (loss). The Company also assesses, both at inception and on an ongoing basis, whether the derivatives that are used in the hedging transaction are highly effective in offsetting changes in cash flows of the hedged items. For those foreign currency exchange contracts that do not qualify for hedge accounting treatment, changes in the fair value of such instruments are recognized each period in other (income) expense, net in our condensed consolidated statements of income. In December 2012, the Company

entered into foreign exchange currency contracts with notional values of \$1,934 at September 30, 2014 and \$10,200 at December 31, 2013 maturing from September 2013 to October 2014 that were considered cash flow hedges. Changes in fair value of such cash flow hedges are recorded in accumulated other comprehensive income (loss) to the extent that the hedges are considered effective. At September 30, 2014, the net fair value of foreign currency exchange contracts was (\$12), which is included in accounts receivable or accounts payable in our condensed consolidated balance sheets, depending on the asset or liability position of the derivative. At September 30, 2015, the Company had no outstanding foreign currency exchange contracts.

## **16. RECENT ACCOUNTING PRONOUNCEMENTS**

### **Recently Issued Standards**

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606) (FASB ASU 2014-09), which supersedes the revenue recognition requirements in ASC 605, Revenue Recognition. ASU 2014-09 outlines a new, single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. This new revenue recognition model provides a five-step analysis in determining when and how revenue is recognized. The new model will require revenue recognition to depict the transfer of promised goods or services to customers in an amount that reflects the consideration a company expects to receive in exchange for those goods or services. In August 2015, the FASB issued ASU 2015-14 which delayed the effective date of the new standard. The provisions of FASB ASU 2015-14 and ASU 2014-09 are now effective for annual reporting periods beginning after December 15, 2017, including interim periods within that reporting period. Early adoption is not permitted. We are currently evaluating the impact of the adoption of this ASU on our consolidated financial statements.

In July 2015, the FASB issued Accounting Standards Update No. 2015-11, Simplifying the Measurement of Inventory (Topic 330) (FASB ASU 2015-11). ASU 2015-11 requires an entity to measure inventory at the lower of cost and net realizable value, rather than the lower of cost or market. The provisions of FASB ASU 2015-11 are effective for interim and annual periods beginning after December 15, 2016. Early adoption is permitted. We are currently evaluating the impact of the adoption of this ASU on our consolidated financial statements.

## 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®, Vulcan®, Challenger®, Holmes®, Champion®, Chevron™, Eagle Titan®, Jige™ and Boniface™ brand names. In this Item 2 – “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” the words “Miller Industries,” “the Company,” “we,” “our,” “ours” and “us” refer to Miller Industries, Inc. and its subsidiaries or any of them.

Our management focuses on a variety of key indicators to monitor our overall operating and financial performance. These indicators include measurements of revenue, operating income, gross margin, 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 including general economic conditions as well as demand for, and price of, our products, our technological competitiveness, our reputation for providing quality products and reliable service, competition within our industry, and the cost of raw materials (including aluminum, steel and petroleum-related products).

Our industry is cyclical in nature. In recent years, the overall demand for our products and resulting revenues have been positively affected by recovering economic conditions and improving consumer sentiment. However, historically, the overall demand for our products and our resulting revenues have at times been negatively affected by:

- wavering levels of consumer confidence;

• volatility and disruption in domestic and international capital and credit markets and the resulting decrease in the availability of financing, including floor plan financing, for our customers and towing operators;

• significant periodic increases in fuel and insurance costs and their negative effect on the ability of our customers to purchase towing and related equipment; and



- the overall effects of global economic downturns.

We remain concerned about the continuing effects of these factors on the towing and recovery industry, and we continue to monitor our overall cost structure to see that it remains in line with business conditions.

In addition, we have been and will continue to be affected by changes in the prices that we pay for raw materials, particularly aluminum, steel, petroleum-related products and other raw materials, which represent a substantial part of our total cost of operations. In the past, as we have determined necessary, we have implemented price increases to offset these higher costs. We also developed alternatives to some of the components used in our production process that incorporate these raw materials, and our suppliers have implemented these alternatives 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.

As previously announced, our financial results through March 31, 2014 were negatively impacted by the Delavan joint venture. Losses before income taxes that are directly attributable to the Delavan joint venture were approximately \$1,300 and \$152 (including the loss on deconsolidation of the subsidiary) for 2013 and the first quarter of 2014, respectively. The Company also generated additional indirect losses associated with the Greeneville, Tennessee facility in connection with its manufacturing and supply agreement for the joint venture. Following a review and evaluation of operations related to the Delavan joint venture, the Company made the decision to consider strategic alternatives with regard to the venture. On February 28, 2014, the Company entered into an agreement to sell all of its interest in the Delavan joint venture to its joint venture partner, which closed on March 31, 2014. Our Greeneville facility has ceased the manufacturing of Delavan products as of the end of the first quarter of 2014 so no further losses from the venture are expected.

There were no borrowings under the credit facility at September 30, 2015. The maximum amount of the credit facility was increased from \$25,000 to \$30,000 during the second quarter of 2015 in order to provide flexibility in the financing of future capital expenditures, including the Pennsylvania consolidation.

### **Critical Accounting Policies**

Our condensed 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.

### *Inventory*

Inventory costs include materials, labor and factory overhead. Inventories are stated at the lower of cost or market (net realizable value), determined on a first-in, first-out basis. Appropriate consideration is given to obsolescence, valuation and other factors in determining net realizable value. Revisions of these estimates could result in the need for adjustments.

### *Long-lived assets*

Long-lived assets 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 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.

### *Goodwill*

Goodwill is tested for impairment annually or if an event or circumstance occurs that would more likely than not reduce the fair value of the reporting unit below the carrying amount. We review goodwill for impairment utilizing a qualitative assessment or a two-step approach. If we choose to perform a qualitative analysis of goodwill and determine that the fair value more likely than not exceeds the carrying value, no further testing is needed. If we choose

the two-step approach or if qualitative analysis determines the carrying value more likely than not exceeds fair value, the first step identifies potential impairment by comparing the fair value of the reporting unit with its carrying value. If the fair value exceeds the carrying value the second step is not necessary. If the carrying value is more than the fair value, the second step of testing is performed to compare the fair value of the goodwill with its carrying value. An impairment loss would be recognized to the extent that the carrying value of the goodwill exceeds its fair value. We cannot predict the occurrence of certain events or changes in circumstances that might adversely affect the carrying value of goodwill. Such events might include, but are not limited to, the impact of the economic environment or a material change in a relationship with significant customers.

### ***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. 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. If unrecognized tax positions exist, we record interest and penalties related to the unrecognized tax positions as income tax expense in our condensed consolidated statement of income.

### ***Revenues***

Under our accounting policies, revenues are recorded when the risk of ownership for products has transferred to independent distributors or other customers, which generally occurs on shipment. From time to time, revenue is recognized under a bill and hold arrangement. Recognition of revenue on bill and hold arrangements occurs when risk of ownership has passed to the customer, a fixed written commitment has been provided by the customer, the goods are complete and ready for shipment, the goods are segregated from inventory, no performance obligation remains, and a schedule for delivery has been established. 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. Foreign currency translation adjustments are included in shareholders' equity. Intercompany debt denominated in a currency other than the functional currency is remeasured into the functional currency. Gains and losses resulting from foreign currency transactions are included in other income and expense in our condensed consolidated statements of income.

### **Results of Operations—Three Months Ended September 30, 2015 Compared to Three Months Ended September 30, 2014**

Net sales for the three months ended September 30, 2015 increased 6.6% to \$126,205 from \$118,398 for the comparable period in 2014. The increase in revenue was primarily attributable to increased demand levels in our domestic markets and corresponding increases in production levels based on recovering economic conditions and improving consumer sentiment.

Costs of operations for the three months ended September 30, 2015 increased 7.6% to \$113,409 from \$105,431 for the comparable period in 2014, which was attributable to the increased demand levels and increased production. Overall, costs of operations increased slightly as a percentage of sales from 89.1% to 89.9%.

Selling, general, and administrative expenses for the three months ended September 30, 2015 increased to \$7,524 from \$7,231 for the three months ended September 30, 2014. The increase in expenses was primarily attributable to higher sales and production levels. As a percentage of sales, selling, general, and administrative expenses decreased to 6.0% for the three months ended September 30, 2015 from 6.1% for the three months ended September 30, 2014 due to the fixed nature of certain of these expenses.

Total interest expense increased to \$291 from \$178 for the three months ended September 30, 2015 as compared to the prior year period. Increases in interest expense were primarily due to increases in interest on distributor floor planning and on chassis purchases.

Other (income) expense relates to foreign currency translation gains and losses. For the three months ended September 30, 2015 was a gain \$94 of compared to a loss of \$31 for the three months ended September 30, 2014.

The provision for income taxes for the three months ended September 30, 2015 and 2014 reflects a combined effective U.S. federal, state and foreign tax rate of 37.6% and 36.8%, respectively.

**Results of operations – Nine months ended September 30, 2015 compared to Nine months ended September 30, 2014**

Net sales for the nine months ended September 30, 2015 increased 17.3% to \$404,530 from \$344,998 for the comparable period in 2014. The increase in revenue was primarily attributable to increased demand levels in our domestic markets and corresponding increases in production levels based on recovering economic conditions and improving consumer sentiment.

Costs of operations for the nine months ended September 30, 2015 increased 17.4% to \$362,241 from \$308,583 for the comparable period in 2014, which was attributable to the increased demand levels and increased production. Overall, costs of operations increased slightly as a percentage of sales from 89.5% to 89.6%.

Selling, general, and administrative expenses for the nine months ended September 30, 2015 increased to \$22,612 from \$21,361 for the nine months ended September 30, 2014. The increase is primarily attributable to higher sales and production levels. As a percentage of sales, selling, general, and administrative expenses decreased to 5.6% for the nine months ended September 30, 2015 from 6.2% for the nine months ended September 30, 2014 due to the fixed nature of certain of these expenses.

Total interest expense increased to \$699 from \$374 for the nine months ended September 30, 2015 as compared to the prior year period. Increases in interest expense were primarily due to increases in interest on distributor floor planning and on chassis purchases.

Other (income) expense, net for the nine months ended September 30, 2015 was a loss of \$227 relating to foreign currency transaction gains and losses. Other (income) expense, net for the nine months ended September 30, 2014 was a loss of \$148 that included a loss on deconsolidation of \$83 and foreign currency transaction losses of \$65.

The provision for income taxes for the nine months ended September 30, 2015 and 2014 reflects a combined effective U.S. federal, state and foreign tax rate of 35.5% and 36.8%, respectively.





## Liquidity and Capital Resources

Cash provided by operating activities was \$13,787 for the nine months ended September 30, 2015, compared to \$2,436 for the comparable period in 2014. The cash provided by operating activities for the 2015 period was primarily attributable to consolidated net income. Cash provided by operating activities reflects increases in accounts payables and decreases in accounts receivable offset by increases in other components of working capital, including inventory. Certain components of accounts receivable and accounts payable have extended collection and payment terms.

Cash used in investing activities was \$5,876 for the nine months ended September 30, 2015 compared to \$3,675 for the comparable period in 2014. The cash used in investing activities for the 2015 period was primarily for the purchase of property, plant and equipment, including purchases for the Pennsylvania project described below.

Cash used in financing activities was \$5,146 for the nine months ended September 30, 2015, compared to \$4,881 for the comparable period in 2014. The cash used in financing activities for the 2015 period was primarily to pay cash dividends, slightly offset by proceeds from the exercise of stock options.

As of September 30, 2015, we had cash and cash equivalents of \$40,965, exclusive of unused availability under our credit facility. Our primary cash requirements include working capital, capital expenditures, the funding of any declared cash dividends and interest and principal payments on indebtedness, if any, under our credit facility. At September 30, 2015, the Company had commitments of approximately \$14,386 for construction and acquisition of property and equipment. We expect our primary sources of cash to be cash flow from operations and cash and cash equivalents on hand at September 30, 2015, with borrowings under our credit facility being available if needed. We expect these sources to be sufficient to satisfy our cash needs during 2015 and for the next several years. However, our ability to satisfy our cash needs will substantially depend upon a number of factors including our future operating performance, taking into account the economic and other factors discussed above and elsewhere in this Quarterly Report, as well as financial, business and other factors, many of which are beyond our control.

As of September 30, 2015 and December 31, 2014, \$19,939 and \$15,701, respectively, of the Company's cash and temporary investments were held by foreign subsidiaries and their holdings are generally based in the local currency. Amounts held by foreign subsidiaries are generally subject to U.S. income taxation on repatriation to the U.S.

The Company is in the process of consolidating and expanding its Pennsylvania manufacturing operations to increase capacity and improve operating efficiencies. The plan includes consolidating primary manufacturing operations at one location while plans for the remaining plant location continue to be evaluated. The current estimated costs of this project are approximately \$22,700, including machinery and equipment, buildings and improvements and land. Approximately \$4,715 of these costs were incurred as of September 30, 2015 and are included in property, plant and equipment, net on the condensed consolidated balance sheets. The remainder of these costs is expected to be incurred

in the last quarter of 2015 and during 2016. The timing and costs of the project are subject to change. We do not anticipate any employee severance costs or any material relocation expense associated with the consolidation since the two existing facilities are very close to each other. The Company also intends to engage in several capital projects involving machinery and equipment and building improvements at its Ooltewah, Tennessee facility that it estimates will cost approximately \$10,000 over the next year.

## **Credit Facilities and Other Obligations**

### ***Credit Facility***

On December 30, 2014, the Company entered into an Amended and Restated Loan Agreement with First Tennessee Bank National Association (“First Tennessee”) for a \$25,000 unsecured revolving credit facility (the “Credit Facility”). On June 11, 2015, the Company entered into the First Amendment to Amended and Restated Loan Agreement with First Tennessee, pursuant to which the maturity date of the Credit Facility was renewed and extended from March 31, 2017 to March 31, 2018, and the maximum amount of the Credit Facility was increased by \$5,000 from \$25,000 to \$30,000. The Credit Facility contains customary representations and warranties, events of default, and financial, affirmative and negative covenants for loan agreements of this kind. Covenants under the Credit Facility restrict the payment of cash dividends if the Company would be in violation of the minimum tangible net worth test or the leverage ratio test in the current loan agreement as a result of the dividends, among various other restrictions.

In the absence of a default, all borrowings under the Credit Facility bear interest at the LIBOR Rate plus 1.50% per annum. The Company will pay a non-usage fee under the current loan agreement in an amount between 0.15% and 0.35% of the unused amount of the Credit Facility, which fee shall be paid quarterly.

At September 30, 2015 and December 31, 2014, the Company had no outstanding borrowings under the Credit Facility.

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

At September 30, 2015, we had approximately \$1,723 in non-cancelable operating lease obligations.

### **ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK**

In the normal course of our business, we are exposed to market risk from changes in interest rates and foreign currency exchange rates that could impact our results of operations and financial position.

#### **Interest Rate Risk**

Changes in interest rates affect the interest paid on indebtedness under our Credit Facility because the outstanding amounts of indebtedness under our Credit Facility are subject to variable interest rates. Under our Credit Facility, the non-default rate of interest was equal to the LIBOR Market Index Rate plus 1.50% per annum (for a rate of interest of 1.69% at September 30, 2015). Because there were no amounts outstanding under the Credit Facility, a one percent change in the interest rate on our variable-rate debt would not have materially impacted our financial position, results of operations or cash flows for the quarter ended September 30, 2015.

#### **Foreign Currency Exchange Rate Risk**

We are subject to risk arising from changes in foreign currency exchange rates related to our international operations in Europe. We manage our exposure to our foreign currency exchange rate risk through our regular operating and financing activities. Additionally, from time to time, we enter into certain forward foreign currency exchange contracts. Because we report in U.S. dollars on a consolidated basis, foreign currency exchange fluctuations could have a translation impact on our financial position. At September 30, 2015, we recognized a \$2,288 decrease in our foreign currency translation adjustment account compared with December 31, 2014 because of fluctuations of the U.S. dollar against certain foreign currencies compared to a \$711 decrease for the prior year period. For the three months ended September 30, 2015 and 2014, the impact of foreign currency exchange rate changes on our results of operations and cash flows was a gain of \$94 and a loss of \$31, respectively. For the nine months ended September 30, 2015 and 2014, the impact of foreign currency exchange rates on the results of operations and cash flows was a loss of \$227 and \$65, respectively.

### **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 (CEOs) and Chief Financial Officer (CFO), of the effectiveness of the design and operation of our disclosure controls and procedures as defined in Rules

13a-14(c) under the Securities Exchange Act of 1934. Based upon this evaluation, our 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, 2014.

**ITEM 6. EXHIBITS**

<b>Description</b>	<b>Incorporated by Reference to Registration File Number</b>	<b>Form or Report</b>	<b>Date of Report</b>	<b>Exhibit Number in Report</b>
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 Rules 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\*

Certification  
Pursuant to  
Section 1350 of  
Chapter 63 of  
32.3 Title 18 of  
United States  
Code by Chief  
Financial  
Officer\*

101 The following  
information  
from the  
Company's  
quarterly report  
on Form 10-Q  
for the quarterly  
period ended  
September 30,  
2015 formatted  
in Extensible  
Business  
Reporting  
Language  
(XBRL):  
(i) Condensed  
Consolidated  
Balance Sheets –  
September 30,  
2015 and  
December 31,  
2014;  
(ii) Condensed  
Consolidated  
Statements  
of Income for  
the three and  
nine months  
ended  
September 30,  
2015 and 2014;  
(iii) Condensed

Consolidated  
Statements of  
Comprehensive  
Income for the  
three and nine  
months ended  
September 30,  
2015 and 2014;  
(iv) Condensed  
Consolidated  
Statements of  
Cash Flows for  
the nine months  
ended  
September 30,  
2015 and 2014;  
and (v) Notes to  
Condensed  
Consolidated  
Financial  
Statements.\*

\* 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 4, 2015