

MILLER INDUSTRIES INC /TN/  
Form 10-Q  
November 09, 2016

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

**FORM 10-Q**

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

For the quarterly period ended September 30, 2016

<sup>o</sup> 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 organization) (I.R.S. Employer Identification No.)

**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**

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(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 31, 2016 was 11,345,560.

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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)**

	September 30, 2016 (Unaudited)	December 31, 2015
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and temporary investments	\$ 32,840	\$ 38,449
Accounts receivable, net of allowance for doubtful accounts of \$2,011 and \$1,864 at September 30, 2016 and December 31, 2015, respectively	125,908	109,170
Inventories	64,838	66,232
Prepaid expenses	2,679	1,689
Current deferred income taxes	3,730	3,725
Total current assets	229,995	219,265
PROPERTY, PLANT, AND EQUIPMENT, net	55,246	39,475
GOODWILL	11,619	11,619
OTHER ASSETS	544	496
	\$ 297,404	\$ 270,855
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 69,186	\$ 73,405
Accrued liabilities	21,957	21,089
Total current liabilities	91,143	94,494
LONG TERM OBLIGATIONS	20,000	—
DEFERRED INCOME TAX LIABILITIES	2,499	2,499
COMMITMENTS AND CONTINGENCIES (Notes 6 and 8)		
<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, 11,345,560 and 11,341,150, outstanding at September 30, 2016 and December 31, 2015, respectively	113	113
Additional paid-in capital	150,401	150,305

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Retained earnings	38,228	28,545
Accumulated other comprehensive income (loss)	(4,980 )	(5,101 )
Total shareholders' equity	183,762	173,862
	\$ 297,404	\$ 270,855

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	
	2016	2015	2016	2015
NET SALES	\$147,597	\$126,205	\$452,525	\$404,530
COSTS OF OPERATIONS	130,481	113,409	403,402	362,241
GROSS PROFIT	17,116	12,796	49,123	42,289
OPERATING EXPENSES:				
Selling, general and administrative expenses	8,495	7,524	24,823	22,612
Interest expense, net	359	291	816	699
Other (income) expense, net	(238 )	(94 )	(451 )	227
Total operating expenses	8,616	7,721	25,188	23,538
INCOME BEFORE INCOME TAXES	8,500	5,075	23,935	18,751
INCOME TAX PROVISION	2,978	1,907	8,466	6,653
NET INCOME	\$5,522	\$3,168	\$15,469	\$12,098
BASIC INCOME PER COMMON SHARE	\$0.49	\$0.28	\$1.36	\$1.07
DILUTED INCOME PER COMMON SHARE	\$0.49	\$0.28	\$1.36	\$1.07
CASH DIVIDENDS DECLARED PER COMMON SHARE	\$0.17	\$0.16	\$0.51	\$0.48
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	11,346	11,341	11,346	11,329
Diluted	11,374	11,368	11,374	11,367

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	
	2016	2015	2016	2015
NET INCOME	\$ 5,522	\$ 3,168	\$ 15,469	\$ 12,098
OTHER COMPREHENSIVE INCOME (LOSS):				
Foreign currency translation adjustment	(768 )	441	121	(2,288 )
COMPREHENSIVE INCOME	\$ 4,754	\$ 3,609	\$ 15,590	\$ 9,810

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	
	2016	2015
<b>OPERATING ACTIVITIES:</b>		
Net income	\$15,469	\$12,098
Adjustments to reconcile net income to net cash from operating activities:		
Depreciation and amortization	3,359	3,038
Provision for doubtful accounts	177	185
Excess tax benefit from stock-based compensation	—	(106 )
Issuance of non-employee director shares	96	96
Deferred income tax provision	5	60
Gain/Loss on Disposal of Equipment	3	—
Changes in operating assets and liabilities:		
Accounts receivable	(17,190 )	(215 )
Inventories	1,113	(8,599 )
Prepaid expenses	(1,011 )	(773 )
Other assets	(48 )	(244 )
Accounts payable	(3,531 )	6,691
Accrued liabilities	978	1,556
Net cash flows from (used in) operating activities	(580 )	13,787
<b>INVESTING ACTIVITIES:</b>		
Purchases of property, plant and equipment	(19,155 )	(5,877 )
Proceeds from sale of plant, property & equipment	5	—
Net (payments on) proceeds from notes receivable	(635 )	1
Net cash flows from (used in) investing activities	(19,785 )	(5,876 )
<b>FINANCING ACTIVITIES:</b>		
Net borrowings under credit facility	20,000	—
Payments of cash dividends	(5,786 )	(5,438 )
Proceeds from stock option exercises	—	186
Excess tax benefit from stock-based compensation	—	106
Net cash flows from (used in) financing activities	14,214	(5,146 )
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND TEMPORARY INVESTMENTS</b>	<b>542</b>	<b>(1,397 )</b>
<b>NET CHANGE IN CASH AND TEMPORARY INVESTMENTS</b>	<b>(5,609 )</b>	<b>1,368</b>
<b>CASH AND TEMPORARY INVESTMENTS, beginning of period</b>	<b>38,449</b>	<b>39,597</b>
<b>CASH AND TEMPORARY INVESTMENTS, end of period</b>	<b>\$32,840</b>	<b>\$40,965</b>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		

Cash payments for interest	\$1,314	\$1,099
Cash payments for income taxes, net of refunds	\$9,211	\$6,908

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.

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, 2015. 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 by the weighted average number of common shares outstanding. Diluted income per share is calculated by dividing net income 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 28,000 and 27,000 potential dilutive common shares for the three months ended September 30, 2016 and 2015, respectively, and 28,000 and 38,000 for the nine months ended September 30, 2016 and 2015, respectively. For the three and nine months ended September 30, 2016 and 2015, 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 factors could result in the need for adjustments. Inventories, net of reserves, at September 30, 2016 and December 31, 2015 consisted of the following:

	<b>September 30,</b>	December 31,
	<b>2016</b>	2015
Chassis	\$ 7,414	\$ 8,048
Raw materials	28,868	28,328
Work in process	12,693	10,850
Finished goods	15,863	19,006
	\$ 64,838	\$ 66,232

#### **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 April 6, 2010 we entered into a Loan Agreement with First Tennessee Bank National Association for a \$20,000 unsecured revolving credit facility. On December 21, 2011, the credit facility was renewed and our unsecured revolving credit facility was increased to \$25,000. On December 30, 2014, the credit facility was further renewed to extend the maturity date to March 31, 2017. On June 11, 2015, the credit facility was further renewed to extend the maturity date to March 31, 2018 and our unsecured revolving credit facility was increased to \$30,000. On June 22, 2016, the credit facility was further increased to \$50,000 to give the Company greater flexibility to finance current capital expenditure projects. The current 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 current 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 dividend, among various restrictions.

In the absence of a default, all borrowings under the current 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 at a rate per annum equal to between 0.15% and 0.35% of the unused amount of the current credit facility, which fee shall be paid quarterly.

At September 30, 2016 and December 31, 2015, the Company had \$20,000 and \$0 outstanding borrowings under the credit facility, respectively.

### ***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 2.03% at September 30, 2016). At the borrowing level under the credit facility at September 30, 2016, 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, 2016.

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

At September 30, 2016, the Company had approximately \$1,959 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, 2016. 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, 2015.

During the three months ended September 30, 2016 and 2015, no options were exercised in 2016 and 1,000 shares of common stock at a weighted-average exercise price of \$5.49 were exercised in 2015. During the nine months ended September 30, 2016 and 2015, no options were exercised in 2016 and 34,000 shares of common stock at a weighted-average exercise price of \$5.49 were exercised in 2015.

## 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 \$46,995 at September 30, 2016, and \$38,334 at December 31, 2015. 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, 2016.

At September 30, 2016, the Company had commitments of approximately \$14,571 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 \$24,712, including machinery and equipment, buildings and improvements and land. Approximately \$20,561 of these costs were incurred as of September 30, 2016 and are included in property, plant and equipment, net on the consolidated balance sheets. The remainder of these costs is expected to be incurred during the fourth quarter of 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 recently began several capital projects involving machinery and equipment and building improvements at its Ooltewah, Tennessee and Greeneville, Tennessee facilities that it estimates will cost in total approximately \$20,733. Approximately \$4,623 of these costs were incurred as of September 30, 2016, and the remainder of these costs are expected to be incurred in the last quarter of 2016 and during 2017. In addition, the Company intends to construct an administrative building at its Ooltewah, Tennessee facility. The current estimated costs of such project are approximately \$4,000, which are expected to be incurred during 2017. The timing and cost of the project are subject to change.

### 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, 2016 and December 31, 2015, 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 2015 and later tax years 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 2013.



## 10. SHAREHOLDERS EQUITY

### Dividends

The Company has paid consecutive quarterly cash dividends since May 2011. Dividend payments made for 2016, 2015, 2014 and 2013 were as follows:

Payment	Record Date	Payment Date	Dividend (per share)	Amount
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
Total for 2014			\$ 0.60	\$ 6,778
Q1 2015	March 20, 2015	March 23, 2015	\$ 0.16	\$ 1,809
Q2 2015	June 15, 2015	June 19, 2015	0.16	1,814
Q3 2015	September 14, 2015	September 21, 2015	0.16	1,815
Q4 2015	December 7, 2015	December 11, 2015	0.16	1,815
Total for 2015			\$ 0.64	\$ 7,253
Q1 2016	March 21, 2016	March 28, 2016	\$ 0.17	\$ 1,929
Q2 2016	June 13, 2016	June 20, 2016	0.17	1,929
Q3 2016	September 12, 2016	September 19, 2016	0.17	1,928
Total for 2016			\$ 0.51	\$ 5,786

On November 7, 2016, the Company's Board of Directors declared a quarterly cash dividend of \$0.17 per share. The dividend is payable December 12, 2016 to shareholders of record as of December 5, 2016.

## 11. GEOGRAPHIC INFORMATION

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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	
	2016	2015	2016	2015
Net Sales:				
North America	\$ 132,600	\$ 109,451	\$ 405,913	\$ 348,456
Foreign	14,997	16,754	46,612	56,074
	\$ 147,597	\$ 126,205	\$ 452,525	\$ 404,530

	September 30,	December 31,
	2016	2015
Long Lived Assets:		
North America	\$ 64,365	\$ 48,589
Foreign	2,500	2,505
	\$ 66,865	\$ 51,094

## 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, 2016 and 2015.

## 13. OTHER (INCOME) EXPENSE

Other (income) expense, net for the three months ended September 30, 2016 consisted of a foreign currency transaction gain of \$238. For the three months ended September 30, 2015, other (income) expense, net consisted of a foreign currency transaction gain of \$94.

Other (income) expense, net for the nine months ended September 30, 2016 consisted of a foreign currency transaction gain of \$451. For the nine months ended September 30, 2015, other (income) expense, net consisted of a foreign currency transaction loss of \$227.

## 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. At September 30, 2016 and December 31, 2015, the Company had no outstanding foreign currency exchange contracts.

## **16. RECENT ACCOUNTING PRONOUNCEMENTS**

### *Recently Issued Standards*

In May 2014, the Financial Accounting Standards Board ("FASB") issued guidance to change the recognition of revenue from contracts with customers. The core principle of the new guidance is that an entity should recognize revenue to reflect the transfer of goods and services to customers in an amount equal to the consideration the entity receives or expects to receive. The guidance will be effective for the Company for reporting periods beginning after December 15, 2017. The Company is in the process of evaluating the impact that this new revenue standard will have on its financial statements.

In July 2015, the FASB issued amendments to the Inventory topic of the Accounting Standards Codification to require inventory to be measured at the lower of cost and net realizable value. Other than the change in the subsequent measurement guidance from the lower of cost or market to the lower of cost and net realizable value for inventory, there are no other substantive changes to the guidance on measurement of inventory. The amendments will be effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2016, with early adoption permitted. The Company does not expect these amendments to have a material effect on its consolidated financial statements.

In November 2015, the FASB amended the Income Taxes topic of the Accounting Standards Codification to simplify the presentation of deferred income taxes by requiring that deferred tax liabilities and assets be classified as noncurrent in a classified statement of financial position. The amendments will be effective for financial statements issued for annual periods beginning after December 15, 2016, and interim periods within those annual periods, with early adoption permitted as of the beginning of an interim or annual reporting period. The Company will apply the guidance retrospectively. The Company is in the process of evaluating the impact that these new amendments will have on its financial statements.

The FASB's new leases standard Accounting Standard Update (“ASU”) 2016-02 Leases (Topic 842) was issued on February 25, 2016 and is intended to improve financial reporting about leasing transactions. The standard affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. The standard will require organizations that lease assets referred to as “Lessees” to recognize on the balance sheet the assets and liabilities for the rights and obligations created by those leases. An organization is to provide disclosures designed to enable users of financial statements to understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include qualitative and quantitative requirements concerning additional information about the amounts recorded in the financial statements. Under the new guidance, a lessee will be required to recognize assets and liabilities for leases with lease terms of more than 12 months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP which requires only capital leases to be recognized on the balance sheet the new standard will require both types of leases (i.e. operating and capital) to be recognized on the balance sheet. The FASB lessee accounting model will continue to account for both types of leases. The capital lease will be accounted for in substantially the same manner as capital leases are accounted for under existing GAAP. The operating lease will be accounted for in a manner similar to operating leases under existing GAAP, except that lessees will recognize a lease liability and a lease asset for all of those leases.

The standard will be effective for financial statements issued for annual periods, and interim periods within these annual periods, beginning December 15, 2018, with early adoption permitted. The Company is currently in the process of evaluating the impact that this new leasing standard will have on its financial statements.

In June 2016, the FASB issued ASU 2016-13, Measurement of Credit Losses on Financial Instruments, as part of its project on financial instruments. The new standard introduces an approach based on expected losses to estimate credit

losses on certain types of financial instruments. It also modifies the impairment model for available-for-sale (AFS) debt securities and provides for a simplified accounting model for purchased financial assets with credit deterioration since their origination. The standard will be effective for financial statements issued for annual periods, and interim periods within these annual periods, beginning January 1, 2020, with early adoption permitted. The Company is currently in the process of evaluating the impact that this new standard will have on its 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 favorable economic conditions, such as lower fuel prices and positive consumer sentiment in our industry. 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;

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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 conditions.

We remain concerned about the 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 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.

At September 30, 2016 and December 31, 2015, the Company had \$20,000 and \$0 outstanding borrowings under the credit facility, respectively. The borrowings under the credit facility were primarily used to finance our current capital expenditure projects for our Pennsylvania manufacturing operations and at our Ooltewah, Tennessee and Greeneville, Tennessee facilities.

### **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, 2016 Compared to Three Months Ended September 30, 2015**

Net sales for the three months ended September 30, 2016 increased 17.0% to \$147,597 from \$126,205 for the comparable period in 2015. The increase in revenue was primarily attributable to strong demand levels in our domestic markets based on positive consumer sentiment accompanied by increases in production levels. Domestic net sales for the period increased from \$109,451 to \$132,600 offset by a decrease in foreign net sales for the period from \$16,754 to \$14,997.

Costs of operations for the three months ended September 30, 2016 increased 15.1% to \$130,481 from \$113,409 for the comparable period in 2015, which was attributable to increased production as a result of the strong demand levels. Overall, costs of operations decreased as a percentage of sales from 89.9% to 88.4% primarily due to product mix.

Selling, general, and administrative expenses for the three months ended September 30, 2016 increased to \$8,495 from \$7,524 for the three months ended September 30, 2015. The increase in expenses was primarily attributable to increased personnel costs related to an increase in staffing levels. As a percentage of sales, selling, general, and administrative expenses decreased to 5.8% for the three months ended September 30, 2016 from 6.0% for the three months ended September 30, 2015 due to higher sales volume and production levels.

Total interest expense increased to \$359 for the three months ended September 30, 2016 as compared to \$291 in the prior year period. Increases in interest expense were primarily due to increases in interest on distributor floor planning and on chassis purchases and borrowings under the credit facility.

Other (income) expense, net relates to foreign currency translation gains and losses. For the three months ended September 30, 2016 the net gain was \$238 compared to a net gain of \$94 for the three months ended September 30, 2015.

The provision for income taxes for the three months ended September 30, 2016 and 2015 reflects a combined effective U.S. federal, state and foreign tax rate of 35.0% and 37.6%, respectively.

**Results of Operations—Nine Months Ended September 30, 2016 Compared to Nine Months Ended September 30, 2015**

Net sales for the nine months ended September 30, 2016 increased 11.9% to \$452,525 from \$404,530 for the comparable period in 2015. The increase in revenue was primarily attributable to strong demand levels in our domestic markets based on positive consumer sentiment accompanied by increases in production levels. Domestic net sales for the period increased from \$348,456 to \$405,913, offset by a decrease in foreign net sales for the period from \$56,074 to \$46,612.

Costs of operations for the nine months ended September 30, 2016 increased 11.4% to \$403,402 from \$362,241 for the comparable period in 2015, which was attributable to increased production as a result of the strong demand levels. Overall, costs of operations decreased as a percentage of sales from 89.6% to 89.1% primarily due to product mix.

Selling, general, and administrative expenses for the nine months ended September 30, 2016 increased to \$24,823 from \$22,612 for the nine months ended September 30, 2015. The increase in expenses was primarily attributable to increased personnel costs related to an increase in staffing levels. As a percentage of sales, selling, general, and administrative expenses decreased from 5.6% to 5.5% for the nine months ended September 30, 2016 and 2015 due to higher sales volume and production levels.

Total interest expense increased to \$816 for the nine months ended September 30, 2016 as compared to \$699 in the prior year period. Increases in interest expense were primarily due to increases in interest on distributor floor planning and on chassis purchases and borrowings under the credit facility.

Other (income) expense, net for the nine months ended September 30, 2016 was a net gain of \$451 relating to foreign currency transaction gains and losses. Other (income) expense, net for the nine months ended September 30, 2015 was a net loss of \$227 relating to foreign currency transaction gains and losses.

The provision for income taxes for the nine months ended September 30, 2016 and 2015 reflects a combined effective U.S. federal, state and foreign tax rate of 35.4% and 35.5%, respectively.

## Liquidity and Capital Resources

Cash used by operating activities was \$580 for the nine months ended September 30, 2016, compared to cash provided by operating activities of \$13,787 for the comparable period in 2015. Cash used by operating activities for the 2016 period reflects increases in accounts receivable primarily attributable to the increase in net sales. Certain components of accounts receivable and accounts payable have extended collection and payment terms.

Cash used in investing activities was \$19,785 for the nine months ended September 30, 2016 compared to \$5,876 for the comparable period in 2015. The cash used in investing activities for the 2016 period was primarily for the purchase of property, plant and equipment relating to the capital projects described below.

Cash provided by financing activities was \$14,214 for the nine months ended September 30, 2016, compared to cash used in financing activities of \$5,146 for the comparable period in 2015. The cash provided by financing activities for the 2016 period resulted from borrowings on the credit facility of \$20,000 offset by the cash used to pay dividends for the 2016 period of \$5,786.

As of September 30, 2016, we had cash and cash equivalents of \$32,840, not including \$30,000 of unused availability under our credit facility. Our primary cash requirements include working capital, capital expenditures, the funding of any declared cash dividends and principal payments on indebtedness, if any, under our credit facility. At September 30, 2016, the Company had commitments of approximately \$14,571 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, 2016, with borrowings under our credit facility being available if needed. We expect these sources to be sufficient to satisfy our cash needs during 2016 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, 2016 and December 31, 2015, \$21,624 and \$18,145, 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 \$24,712, including machinery and equipment, buildings and improvements and land.

Approximately \$20,561 of these costs were incurred as of September 30, 2016 and are included in property, plant and equipment, net on the consolidated balance sheets. The remainder of these costs is expected to be incurred during the fourth quarter of 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 recently began several capital projects involving machinery and equipment and building improvements at its Ooltewah, Tennessee and Greeneville, Tennessee facilities that it estimates will cost in total approximately \$20,733. Approximately \$4,623 of these costs were incurred as of September 30, 2016, and the remainder of these costs are expected to be incurred in the last quarter of 2016 and during 2017. In addition, the Company intends to construct an administrative building at its Ooltewah, Tennessee facility. The current estimated costs of such project are approximately \$4,000, which are expected to be incurred during 2017. The timing and cost of the project are subject to change.

## **Credit Facilities and Other Obligations**

### ***Credit Facility***

On April 6, 2010 we entered into a Loan Agreement with First Tennessee Bank National Association for a \$20,000 unsecured revolving credit facility. On December 21, 2011, the credit facility was renewed and our unsecured revolving credit facility was increased to \$25,000. On December 30, 2014, the credit facility was further renewed to extend the maturity date to March 31, 2017. On June 11, 2015, the credit facility was further renewed to extend the maturity date to March 31, 2018 and our unsecured revolving credit facility was increased to \$30,000. On June 22, 2016, the credit facility was further increased to \$50,000 to give the Company greater flexibility to finance current capital expenditure projects. The current 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 current 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 at a rate per annum equal to between 0.15% and 0.35% of the unused amount of the credit facility, which fee shall be paid quarterly.

At September 30, 2016 and December 31, 2015, the Company had \$20,000 and \$0 outstanding borrowings under the credit facility, respectively.





### *Other Long-Term Obligations*

At September 30, 2016, we had approximately \$1,959 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 2.03% at September 30, 2016). At the borrowing level under the credit facility at September 30, 2016, 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, 2016.

### **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.

For the three months ended September 30, 2016 and 2015, the impact of foreign currency exchange rate changes on our results of operations and cash flows was a net gain of \$238 and a net gain of \$94, respectively. For the nine months ended September 30, 2016 and 2015, the impact of foreign currency exchange rate changes on our results of operations and cash flows was a net gain of \$451 and a net loss of \$227, respectively.

Because we report in U.S. dollars on a consolidated basis, foreign currency exchange fluctuations could have a translation impact on our financial position. For the three months ended September 30, 2016, we recognized a \$768 decrease in our foreign currency translation adjustment account because of fluctuations of the U.S. dollar against certain foreign currencies, including the post-Brexit vote strengthening of the U.S. dollar against the British pound, compared to a \$441 increase for the prior year period. For the nine months ended September 30, 2016, we recognized a \$121 increase in our foreign currency translation adjustment account because of fluctuations of the U.S. dollar against certain foreign currencies compared to a \$2,288 decrease for the prior year period.

#### **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**

In addition to the other information set forth in this report, you should carefully consider the risk factors disclosed in Item 1A, "Risk Factors," of the Company's Annual Report on Form 10-K for the year ended December 31, 2015 as updated in the Company's quarterly report for the quarter ended June 30, 2016.

**ITEM 6. EXHIBITS**

Description	Incorporated by Reference to Registration File Number	Form or Report	Date of Report	Exhibit Number in Report
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±				
32.3 Certification Pursuant to Section 1350 of Chapter 63 of 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, 2016 formatted in Extensible Business Reporting Language (XBRL): (i) Condensed Consolidated Balance Sheets – September 30, 2016 and December 31, 2015; (ii) Condensed Consolidated Statements of Income for the three and nine months ended September 30, 2016 and 2015; (iii) Condensed Consolidated Statements of Comprehensive Income for the three and nine months ended September 30, 2016 and 2015; (iv) Condensed Consolidated Statements of Cash Flows for the nine months ended September 30, 2016 and 2015; and (v) Notes to Condensed Consolidated Financial Statements.*				

\* Filed herewith

Exhibit is being furnished and shall not be deemed “filed” for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, or otherwise subjected to the liabilities of that Section. This exhibit shall not be incorporated <sup>±</sup> by reference into any given registration statement or other document pursuant to the Securities Act of 1933, as amended, except as shall be expressly set forth by specific reference in such a filing.

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**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 9, 2016