

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

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

**FORM 10-Q**

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

For the quarterly period ended **March 31, 2007**

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

For the transition period from \_\_\_\_\_  
to \_\_\_\_\_

Commission file number 1-14124

**MILLER INDUSTRIES, INC.**

(Exact Name of Registrant as Specified in Its Charter)

**Tennessee**

(State or Other Jurisdiction of Incorporation or Organization)

**62-1566286**

(I.R.S. Employer Identification No.)

**8503 Hilltop Drive  
Ooltewah, Tennessee**

(Address of Principal Executive Offices)

**37363**

(Zip Code)

**(423) 238-4171**

(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 is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer

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

Yes  No.

The number of shares outstanding of the registrant’s common stock, par value \$.01 per share, as of April 30, 2007 was 11,538,894.

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### FORWARD-LOOKING STATEMENTS

Certain statements in this Form 10-Q, including but not limited to Item 2, “Management’s Discussion and Analysis of Financial Condition and Results of Operations,” may be deemed to be forward-looking statements, as defined in the Private Securities Litigation Reform Act of 1995. Such forward-looking statements are made based on our management’s belief, as well as assumptions made by, and information currently available to, our management, pursuant to “safe harbor” provisions of the Private Securities Litigation Reform Act of 1995. Our actual results may differ materially from the results anticipated in these forward-looking statements due to, among other things, the risks related to the cyclical nature of our industry, general economic conditions and the economic health of our customers; our dependence on outside suppliers of raw materials, increases in the cost of aluminum, steel and related raw materials, and increases in fuel and other transportation costs; and those other risks referenced herein, including those risks referred to in this report, in Part II, “Item 1A. Risk Factors,” and those risks discussed in our other filings with the SEC, including those risks discussed under the caption “Risk Factors” in our Form 10-K for fiscal 2006, which discussion is incorporated herein by this reference. Such factors are not exclusive. We do not undertake to update any forward-looking statement that may be made from time to time by, or on behalf of, our company.



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

	<b>March 31, 2007 (Unaudited)</b>	<b>December 31, 2006</b>
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and temporary investments	\$ 12,734	\$ 8,204
Accounts receivable, net of allowance for doubtful accounts of \$2,357 and \$2,488 at March 31, 2007 and December 31, 2006, respectively	85,600	84,186
Inventories, net	45,045	43,155
Prepaid expenses and other	4,141	2,079
Current deferred income taxes	10,198	12,154
Total current assets	157,718	149,778
<b>PROPERTY, PLANT, AND EQUIPMENT, net</b>	<b>29,605</b>	<b>27,527</b>
<b>GOODWILL, net</b>	<b>11,619</b>	<b>11,619</b>
<b>DEFERRED INCOME TAXES</b>	<b>7,586</b>	<b>7,586</b>
<b>OTHER ASSETS</b>	<b>746</b>	<b>922</b>
	\$ 207,274	\$ 197,432
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term obligations	\$ 1,598	\$ 1,623
Accounts payable	59,222	58,620
Accrued liabilities and other	17,273	13,269
Total current liabilities	78,093	73,512
<b>LONG-TERM OBLIGATIONS, less current portion</b>	<b>10,067</b>	<b>10,537</b>
<b>COMMITMENTS AND CONTINGENCIES (Notes 5 and 8)</b>		
<b>SHAREHOLDERS' EQUITY:</b>		
Preferred stock, \$.01 par value; 5,000,000 shares authorized, none issued or outstanding	-	-
Common stock, \$.01 par value; 100,000,000 shares authorized, 11,528,779 and 11,509,964 outstanding at March 31, 2007 and December 31, 2006, respectively	115	115
Additional paid-in capital	159,978	159,702
Accumulated deficit	(43,144)	(48,539)
Accumulated other comprehensive income	2,165	2,105
Total shareholders' equity	119,114	113,383
	\$ 207,274	\$ 197,432

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



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

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

	Three Months Ended March 31,	
	2007	2006
<b>NET SALES</b>	\$ 114,003	\$ 93,436
<b>COSTS AND EXPENSES:</b>		
Costs of operations	97,752	79,291
Selling, general and administrative expenses	7,162	6,584
Interest expense, net	712	834
Total costs and expenses	105,626	86,709
<b>INCOME BEFORE INCOME TAXES</b>	<b>8,377</b>	<b>6,727</b>
<b>INCOME TAX PROVISION</b>	<b>2,982</b>	<b>844</b>
<b>NET INCOME</b>	<b>\$ 5,395</b>	<b>\$ 5,883</b>
<b>BASIC INCOME PER COMMON SHARE</b>	<b>\$ 0.47</b>	<b>\$ 0.52</b>
<b>DILUTED INCOME PER COMMON SHARE</b>	<b>\$ 0.46</b>	<b>\$ 0.51</b>
<b>WEIGHTED AVERAGE SHARES OUTSTANDING:</b>		
Basic	11,521	11,309
Diluted	11,651	11,598

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)

	Three Months Ended March 31,	
	2007	2006
<b>OPERATING ACTIVITIES:</b>		
Net income	\$ 5,395	\$ 5,883
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	698	700
Amortization of deferred financing costs	31	30
Provision for doubtful accounts	75	255
Stock-based compensation	77	77
Issuance of non-employee director shares	75	75
Deferred income tax provision	1,877	-
Changes in operating assets and liabilities:		
Accounts receivable	(1,471)	(7,494)
Inventories	(1,846)	(3,502)
Prepaid expenses and other	(2,062)	(2,753)
Accounts payable	568	5,653
Accrued liabilities and other	4,069	1,224
Net cash provided by operating activities from continuing operations	7,486	148
Net cash provided by operating activities from discontinued operations	-	315
Net cash provided by operating activities	7,486	463
<b>INVESTING ACTIVITIES:</b>		
Purchases of property, plant, and equipment	(2,803)	(884)
Proceeds from sale of property, plant and equipment	33	33
Payments received on notes receivables	156	67
Net cash used in investing activities from continuing operations	(2,614)	(784)
Net cash provided by investing activities from discontinued operations	-	87
Net cash used in investing activities	(2,614)	(697)
<b>FINANCING ACTIVITIES:</b>		
Payments on long-term obligations	(493)	(417)
Proceeds from the exercise of stock options	124	126
Net cash used in financing activities from continuing operations	(369)	(291)
Net cash used in financing activities from discontinued operations	-	-
Net cash used in financing activities	(369)	(291)
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND TEMPORARY INVESTMENTS</b>	27	67
<b>NET CHANGE IN CASH AND TEMPORARY INVESTMENTS</b>	<b>4,530</b>	<b>(458)</b>
<b>CASH AND TEMPORARY INVESTMENTS, beginning of period</b>	<b>8,204</b>	<b>6,147</b>
<b>CASH AND TEMPORARY INVESTMENTS-DISCONTINUED OPERATIONS, beginning of period</b>	<b>-</b>	<b>23</b>
<b>CASH AND TEMPORARY INVESTMENTS-DISCONTINUED OPERATIONS, end of period</b>	<b>-</b>	<b>201</b>



<b>CASH AND TEMPORARY INVESTMENTS, end of period</b>	\$	<b>12,734</b>	\$	5,511
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>				
Cash payments for interest	\$	<b>902</b>	\$	852
Cash payments for income taxes	\$	<b>464</b>	\$	593

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

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

**1. BASIS OF PRESENTATION**

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

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

Basic income per share is computed by dividing income by the weighted average number of common shares outstanding. Diluted income per share is calculated by dividing income by the weighted average number of common and potential dilutive common shares outstanding. Diluted income per share takes into consideration the assumed conversion of outstanding stock options resulting in approximately 130,000 and 289,000 potential dilutive common shares for the three months ended March 31, 2007 and 2006, respectively. For the three months ended March 31, 2007 and 2006, options to purchase approximately 52,000 and 95,000 shares, respectively, which were outstanding during the period, were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

**3. INVENTORIES**

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

Inventories for continuing operations at March 31, 2007 and December 31, 2006 consisted of the following (in thousands):

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
Chassis	\$ 4,918	\$ 3,596
Raw materials	18,437	18,767
Work in process	10,390	12,566
Finished goods	11,300	8,226
	<b>\$ 45,045</b>	<b>\$ 43,155</b>

**4. LONG-LIVED ASSETS**

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

## 5. LONG-TERM OBLIGATIONS

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

	<b>March 31, 2007</b>	<b>December 31, 2006</b>
Outstanding borrowings under Senior Credit Facility	\$ 4,550	\$ 4,900
Outstanding borrowings under Junior Credit Facility	5,000	5,000
Mortgage, equipment and other notes payable	2,115	2,260
	<b>11,665</b>	12,160
Less current portion	<b>(1,598)</b>	(1,623)
	<b>\$ 10,067</b>	\$ 10,537

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

### Credit Facilities

*Senior Credit Facility.* The Company is party to a Credit Agreement (the “Senior Credit Agreement”) with Wachovia Bank, National Association, for a \$27.0 million senior secured credit facility (the “Senior Credit Facility”). The Senior Credit Facility consists of a \$20.0 million revolving credit facility (the “Revolver”), and a \$7.0 million term loan (the “Term Loan”). At March 31, 2007 and December 31, 2006, the Company had no outstanding borrowings under the revolving credit facility. In the absence of a default, all borrowings under the Revolver bear interest at the LIBOR Market Index Rate (as defined in the Senior Credit Agreement) plus a margin of between 1.75% to 2.50% per annum that is subject to adjustment from time to time based upon the Consolidated Leverage Ratio (as defined in the Senior Credit Agreement), and the Term Loan bears interest at a 30-day adjusted LIBOR rate plus a margin of between 1.75% to 2.50% per annum that is subject to adjustment from time to time based upon the Consolidated Leverage Ratio. The Revolver expires on June 15, 2008, and the Term Loan matures on June 15, 2010. The Senior Credit Facility is secured by substantially all of the Company’s assets, and contains customary representations and warranties, events of default and affirmative and negative covenants for secured facilities of this type.

The Company is currently discussing potential new senior loan arrangements which are expected to be at least as favorable to the Company as the current facility.

*Junior Credit Facility.* William G. Miller, the Company’s Chairman of the Board and Co-Chief Executive Officer, is the sole lender under the Company’s junior credit facility (the “Junior Credit Facility”). The Company’s Junior Credit Facility is, by its terms, expressly subordinated only to the Senior Credit Facility, and is secured by a second priority lien and security interest in substantially all of the Company’s other assets. The Junior Credit Facility matures on September 17, 2008, and contains certain representations and warranties, covenants and events of default consistent with the representations and warranties, covenants and events of default in the Senior Credit Agreement. In the absence of a default, all of the term loans outstanding under the Junior Credit Facility bear interest at a rate of 9.0% per annum.

In May 2006, the Company repaid \$5.0 million of the subordinated debt under the Junior Credit Facility using additional borrowings under the Senior Credit Facility Revolver. In May 2007, the Company determined to repay the remaining \$5.0 million principal balance under the Junior Credit Facility during the second quarter of 2007. With such payment, all loans from Mr. Miller, which were first made as part of the restructuring of the Company’s overall bank

debt in 2003 will be paid in full and all agreements related thereto will be terminated.

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

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Future maturities of long-term obligations at March 31, 2007 are as follows (in thousands):

2008	\$ 1,598
2009	6,550
2010	3,149
2011	364
2012	4
	\$ 11,665

## 6. RELATED PARTY TRANSACTIONS

### Junior Credit Facility

As a result of a series of transactions in 2005, William G. Miller is the sole lender under the Company's Junior Credit Facility. The Company paid approximately \$112,500 and \$225,000 in interest expense on the Junior Credit Facility for the three months ended March 31, 2007 and 2006, respectively. Additionally, approximately \$39,000 is included in accrued liabilities for unpaid interest on the Junior Credit Facility at March 31, 2007 and December 31, 2006.

In May 2006, the Company repaid \$5.0 million of subordinated debt under the Junior Credit Facility, and in May 2007, the Company determined to repay the remaining \$5.0 million principal balance under the Junior Credit Facility during the second quarter of 2007. These payments were approved by the Audit Committee of the Company's Board of Directors and by the full Board of Directors with Mr. Miller abstaining due to his personal interest in the transaction. With such payment, all loans from Mr. Miller, which were first made as part of the restructuring of the Company's overall bank debt in 2003 will be paid in full and all agreements related thereto will be terminated.

### DataPath, Inc.

During 2006, the Company continued to manufacture mobile communication trailers for DataPath, Inc. ("DataPath") under the Company's March 30, 2005 requirements agreement with DataPath. DataPath is a company in which Mr. Miller and one of the Company's other directors, hold a minority interest, and on whose board they also served. As of June 30, 2006, Mr. Miller and the Company's other director had resigned from their positions on Datapath's board of directors, and had reduced their collective interest in Datapath to less than 4% of its total outstanding shares.

## 7. STOCK-BASED COMPENSATION

Effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 123R, "Share-Based Payment" using the modified prospective transition method. This statement requires the determination of the fair-value of stock-based compensation at the grant date and the recognition of the related expense over the period in which the stock-based compensation vests. During the three months ended March 31, 2007, the Company recorded approximately \$77,000, in compensation expense related to its stock-based compensation. The stock-based compensation expense is included in selling, general and administrative expenses in the accompanying consolidated statements of income.

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



The Company did not issue any stock options during the three months ended March 31, 2007. As of March 31, 2007, the Company had \$308,000 of unrecognized compensation expense related to stock options, with approximately \$231,000 to be expensed during the remainder of 2007, and \$77,000 to be expensed in 2008, respectively. The Company issued approximately 15,500 shares of common stock during the three months ended March 31, 2007 from the exercise of stock options. For additional disclosures related to the Company's stock-based compensation refer to Notes 2 and 5 of the Notes to the Consolidated Financial Statements in the Company's Annual Report on Form 10-K for the year ended December 31, 2006.

## **8. COMMITMENTS AND CONTINGENCIES**

### **Commitments**

The Company has entered into arrangements with third-party lenders where it has agreed, in the event of default by a customer, to repurchase from the third-party lender Company products repossessed from the customer. These arrangements are typically subject to a maximum repurchase amount. The Company's risk under these arrangements is mitigated by the value of the products repurchased as part of the transaction. The maximum amount of collateral that the Company could be required to purchase was approximately \$29.4 million at March 31, 2007, and \$27.5 million at December 31, 2006.

At March 31, 2007, the Company had commitments of approximately \$1.2 million for construction and acquisition of property and equipment, all of which is expected to be incurred in the remainder of 2007.

### **Contingencies**

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

## **9. INCOME TAXES**

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

## **10. COMPREHENSIVE INCOME**

The Company had comprehensive income of \$5.4 million and \$6.1 million for the three months ended March 31, 2007 and 2006, respectively. Components of the Company's other comprehensive income consist primarily of foreign currency translation adjustments.





## 11. GEOGRAPHIC AND CUSTOMER INFORMATION

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

	For the Three Months Ended	
	March 31,	
	2007	2006
<b>Net Sales:</b>		
North America	\$ 95,893	\$ 77,517
Foreign	18,110	15,919
	\$ 114,003	\$ 93,436

  

	March 31,	December
	2007	31, 2006
<b>Long Lived Assets:</b>		
North America	\$ 38,568	\$ 36,455
Foreign	2,656	2,691
	\$ 41,224	\$ 39,146

No single customer accounted for 10% or more of consolidated net sales for the three months ended March 31, 2007 and 2006.

## 12. DISCONTINUED OPERATIONS

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

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

The operating results for the discontinued operations of the towing services segment and the distributor group for the three months ended March 31, 2006, were as follows (in thousands):

	Three Months Ended March 31, 2006		
	Dist.	Towing	Total
Net sales	\$ 287	\$ -	\$ 287
Operating income (loss)	\$ -	\$ -	\$ -
Loss from discontinued operations	\$ -	\$ -	\$ -

13.

**RECENT ACCOUNTING PRONOUNCEMENTS**

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

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

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

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

### **Executive Overview**

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

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

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

Our revenues continued to be positively affected by strong overall demand for our products resulting from general economic improvements. In addition, we continued to manufacture heavy-duty towing and recovery units for several military and governmental orders for towing and recovery equipment. While we continue to increase production of our commercial lines, the timing of the receipt of additional government and military orders as well as the timing of deliveries of chassis and other wrecker components could have short-term effects on the timing of production and revenue over the remainder of 2007.

We have been and will continue to be affected by increases in the prices that we pay for raw materials, particularly aluminum, steel, petroleum-related products and other raw materials. Raw material costs represent a substantial part of our total costs of operations, and management expects aluminum and steel prices to remain at historically high levels for the foreseeable future. As we determined necessary, we implemented price increases to offset these higher costs. We also began to develop alternatives to the components used in our production process that incorporate these raw

materials. We have shared several of these alternatives with our major component part suppliers, some of whom have begun to implement them in the production of our component parts. We continue to monitor raw material prices and availability in order to more favorably position the Company in this dynamic market.

During 2006, we repaid \$5.0 million of subordinated debt under our junior credit facility using additional borrowings under the revolving portion of our senior credit facility. Total senior and junior debt at March 31, 2007 was \$9.6 million, which represents a significant decrease in our overall indebtedness from prior periods. In May 2007, we determined to repay the remaining \$5.0 million principal balance under our junior credit facility during the second quarter of 2007. Following repayment of this amount, we will have no outstanding indebtedness under our junior credit facility.

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

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

### **Discontinued Operations**

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

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

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

### **Critical Accounting Policies**

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

amounts would be reported under different conditions or using different assumptions follows:

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### ***Accounts receivable***

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

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

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

### ***Warranty Reserves***

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

### ***Income taxes***

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

In the fourth quarter of 2006, we reversed our deferred tax valuation allowance. As a result of our positive earnings, our favorable projected earnings outlook as well as the improvements in our overall financial position, we determined that it is more likely than not that the deferred tax asset will be realized. The Company recognized a net deferred tax asset of \$19.7 million as of December 31, 2006, which includes the \$8.8 million recognized as a result of the reversal of the valuation allowance.

### ***Revenues***

Under our accounting policies, revenues are recorded when risk of ownership has transferred to independent distributors or other customers, which generally occurs on shipment. While we manufacture only the bodies of



wreckers, which are installed on truck chassis manufactured by third parties, we frequently purchase the truck chassis for resale to our customers. Sales of company-purchased truck chassis are included in net sales. Margins are substantially lower on completed recovery vehicles containing company-purchased chassis because the markup over the cost of the chassis is nominal.

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

The functional currency for our foreign operations is the applicable local currency. The translation from the applicable foreign currencies to U.S. dollars is performed for balance sheet accounts using current exchange rates in effect at the balance sheet date, historical rates for equity and the weighted average exchange rate during the period for revenue and expense accounts. The gains or losses resulting from such translations are included in shareholders' equity. For intercompany debt denominated in a currency other than the functional currency, the remeasurement into the functional currency is also included in shareholders' equity as the amounts are considered to be of a long-term investment nature.

### **Results of Operations-Three Months Ended March 31, 2007 Compared to Three Months Ended March 31, 2006**

Net sales for the three months ended March 31, 2007 increased 22.0% to \$114.0 million from \$93.4 million for the comparable period in 2006. This increase was attributable to continuing overall improvements in market conditions with increases in demand leading to increases in production levels.

Costs of operations for the three months ended March 31, 2007 increased 23.3% to \$97.8 million from \$79.3 million for the comparable period in 2006, which was attributable to increases in demand and production. Overall, costs of operations increased slightly as a percentage of sales from 84.9% to 85.8% because of product mix as well as higher raw material costs, partially offset by past pricing actions.

Selling, general, and administrative expenses for the three months ended March 31, 2007, increased to \$7.2 million from \$6.6 million for the three months ended March 31, 2006. The increase is attributable to increases in personnel-related expenses and other expenses associated with higher sales volume. As a percentage of sales, selling, general, and administrative expenses decreased to 6.3% for the three months ended March 31, 2007 from 7.1% for the three months ended March 31, 2006.

The provision for income taxes for the three months ended March 31, 2007 and 2006 reflects the combined effective U.S. federal, state and foreign tax rate of 35.6% and 12.5%, respectively.

Our total interest expense decreased to \$0.7 million for the three months ended March 31, 2007 from \$0.8 million for the comparable year-ago period. Decreases in interest expense were primarily the result of lower debt levels.

### **Liquidity and Capital Resources**

Cash provided by operating activities was \$7.5 million for the three months ended March 31, 2007, compared to \$0.5 million for the comparable period of 2006. The cash provided by operating activities for the three months ended March 31, 2007 reflects increases in profitability partially offset by increases in accounts receivable and inventory directly related to our revenue increases and increases in accounts payable and accrued liabilities to support increased volume.

Cash used in investing activities was \$2.6 million for the three months ended March 31, 2007, compared to \$0.7 million for the comparable period in 2006. The cash used in investing activities was for the purchase of property, plant and equipment.

Cash used in financing activities was \$0.4 million for the three months ended March 31, 2007 compared to \$0.3 million in comparable period in the prior year. The cash used in financing activities paid down our term loan, and repaid other outstanding long-term debt.

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

We are modernizing and expanding our manufacturing facilities in Ooltewah, Tennessee and Hermitage, Pennsylvania. The cost of these projects is anticipated to be approximately \$14.0 million. At March 31, 2007, the Company had commitments of approximately \$1.2 million for construction and acquisition of property and equipment, all of which is expected to be incurred in the remainder of 2007. We expect to fund these projects from cash flows from operations and unused availability under our senior credit facility.

Additionally, in May 2006 we repaid \$5.0 million of subordinated debt under our junior credit facility using additional borrowings under the revolving portion of our senior credit facility, and in May 2007, we determined to repay the remaining \$5.0 million principal balance of our junior credit facility during the second quarter of 2007.

In addition to our modernization and expansion and the planned repayment of our junior indebtedness, our primary cash requirements include working capital, capital expenditures and interest and principal payments on indebtedness under our senior credit facility. We expect our primary sources of cash to be cash flow from operations, cash and cash equivalents on hand at March 31, 2007 and borrowings from unused availability under our senior credit facility. We expect these sources to be sufficient to satisfy our cash needs for the remainder of 2007.

## **Credit Facilities and Other Obligations**

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

On June 17, 2005, we entered into a Credit Agreement with Wachovia Bank, National Association, for a \$27.0 million senior secured credit facility. Proceeds from this new senior credit facility were used to repay The CIT Group/Business Credit, Inc. and William G. Miller, our Chairman of the Board and Co-Chief Executive Officer, under our former senior credit facility. As a result, effective June 17, 2005, our former senior credit facility was satisfied and terminated, and Mr. Miller no longer holds any of our senior debt.

The senior credit facility consists of a \$20.0 million revolving credit facility, and a \$7.0 million term loan. At March 31, 2007 and December 31, 2006, the Company had no outstanding borrowings under the revolving credit facility. In the absence of a default, all new borrowings under the revolving credit facility bear interest at the LIBOR Market Index Rate (as defined in the Credit Agreement) plus a margin of between 1.75% to 2.50% per annum that is subject to adjustment from time to time based upon the Consolidated Leverage Ratio (as defined in the new Credit Agreement), and the term loan bears interest at a 30-day adjusted LIBOR rate plus a margin of between 1.75% to 2.50% per annum that is subject to adjustment based upon the Consolidated Leverage Ratio. The revolving credit facility expires on June 15, 2008, and the term loan matures on June 15, 2010. The senior credit facility is secured by substantially all of our assets, and contains customary representations and warranties, events of default and affirmative and negative covenants for secured facilities of this type.

The Company is currently discussing potential new senior loan arrangements which are expected to be at least as favorable to the Company as the current facility.

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

William G. Miller is the sole lender under our junior credit facility. Our junior credit facility is, by its terms, expressly subordinated only to our senior credit facility, and is secured by a second priority lien and security interest in substantially all of our other assets. The junior credit facility matures on September 17, 2008, and contains certain representations and warranties, covenants and events of default consistent with the representations and warranties, covenants and events of default in our Senior Credit Agreement. In the absence of a default, all of the term loans outstanding under the junior credit facility bear interest at a rate of 9.0% per annum.

In May 2006, we repaid \$5 million of subordinated debt under our junior credit facility using additional borrowings under our revolving portion of our senior credit facility. In May 2007, the Company determined to repay the remaining \$5.0 million principal balance under the Junior Credit Facility during the second quarter of 2007. With such payment, all loans from Mr. Miller, which were first made as part of the restructuring of the Company's overall bank debt in 2003 will be paid in full and all agreements related thereto will be terminated.



***Interest Rate Sensitivity***

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

***Other Long-Term Obligations***

In addition to the borrowings under the senior and junior credit facilities described above, we had approximately \$2.1 million of mortgage notes payable, equipment notes payable and other long-term obligations at March 31, 2007. We also had approximately \$2.7 million in non-cancelable operating lease obligations.

**ITEM 4. CONTROLS AND PROCEDURES**

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

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

## PART II. OTHER INFORMATION

### ITEM 1. LEGAL PROCEEDINGS

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

### ITEM 1A. RISK FACTORS

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

### ITEM 6. EXHIBITS

3.1 Charter, as amended, of the Registrant (incorporated by reference to Exhibit 3.1 to the Registrant's Annual Report on Form 10-K, filed with the Commission on April 22, 2002)

3.2 Bylaws of the Registrant (incorporated by reference to Exhibit 3.2 to the Registrant's Registration Statement on Form S-1, filed with the Commission in August 1994)

31.1 Certification Pursuant to Rules 13a-14(a)/15d-14(a) by Co-Chief Executive Officer\*

31.2 Certification Pursuant to Rules 13a-14(a)/15d-14(a) by Co-Chief Executive Officer\*

31.3 Certification Pursuant to Rule 13a-14(a)/15d-14(a) by Chief Financial Officer\*

32.1 Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of United States Code by Co-Chief Executive Officer\*

32.2 Certification Pursuant to Section 1350 of Chapter 63 of Title 18 of United States Code by Co-Chief Executive Officer\*

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

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\* Filed herewith

**SIGNATURES**

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

MILLER INDUSTRIES, INC.

By: /s/ J. Vincent Mish

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J. Vincent Mish

Executive Vice President and Chief Financial Officer

Date: May 8, 2007