

MILLER INDUSTRIES INC /TN/  
Form 10-Q  
November 09, 2010

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

FORM 10-Q

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

For the quarterly period ended September 30, 2010

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  
(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 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 November 2, 2010 was 11,694,525.

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## Index

PART I	FINANCIAL INFORMATION	Page Number
	Item 1.	Financial Statements
		Condensed Consolidated Balance Sheets – September 30, 2010 and December 31, 2009
		2
		Condensed Consolidated Statements of Income for the Three and Nine Months Ended September 30, 2010 and 2009
		3
		Condensed Consolidated Statements of Cash Flows for the Nine Months Ended September 30, 2010 and 2009
		4
		Notes to Condensed Consolidated Financial Statements
		5
	Item 2.	Management’s Discussion and Analysis of Financial Condition and Results of Operations
		9
	Item 3.	Quantitative and Qualitative Disclosures About Market Risk
		13
	Item 4.	Controls and Procedures
		14
PART II	OTHER INFORMATION	
	Item 1.	Legal Proceedings
		14
	Item 1A.	Risk Factors
		14
	Item 6.	Exhibits
		15
SIGNATURES		16

## FORWARD-LOOKING STATEMENTS

Certain statements in this Form 10-Q, including but not limited to statements made in Part I, 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. Forward-looking statements can be identified by the use of words such as “may,” “will,” “should,” “could,” “continue,” “future,” “potential,” “believe,” “pro,” “intend,” “seek,” “estimate,” “predict,” “expect,” “anticipate” and similar expressions, or the negative of such words, or comparable terminology. Forward-looking statements also include the assumptions underlying or relating to any of the foregoing statements. Such forward-looking statements are made based on our management’s beliefs as well as assumptions made by, and information currently available to, our management. These forward-looking statements are

subject to a number of risks and uncertainties, including, economic and market conditions; the risks related to the general economic health of our customers; our customers' access to capital and credit to fund purchases, including the ability of our customers to secure floor plan financing; the success and timing of existing and additional export and governmental orders; the cyclical nature of our industry; changes in fuel and other transportation costs; our dependence on outside suppliers of raw materials; changes in the cost of aluminum, steel and related raw materials; and those other risks referenced herein, including those risks referred to in Part II, Item 1A—"Risk Factors" and those risks discussed in our other filings with the Securities and Exchange Commission, including those risks discussed under the caption "Risk Factors" in our Annual Report on Form 10-K for fiscal 2009, which discussion is incorporated herein by this reference. Such factors are not exclusive. We do not undertake to update any forward-looking statement that may be made from time to time by, or on behalf of, our company.

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## PART I. FINANCIAL INFORMATION

## ITEM 1. FINANCIAL STATEMENTS

MILLER INDUSTRIES, INC. AND SUBSIDIARIES  
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	September 30, 2010 (Unaudited)	December 31, 2009
<b>ASSETS</b>		
<b>CURRENT ASSETS:</b>		
Cash and temporary investments	\$ 42,962	\$ 36,160
Accounts receivable, net of allowance for doubtful accounts of \$1,864 and \$2,090 at September 30, 2010 and December 31, 2009, respectively	61,665	44,673
Inventories	29,757	36,061
Prepaid expenses and other	2,784	2,296
Current deferred income taxes	4,815	5,882
Total current assets	141,983	125,072
PROPERTY, PLANT, AND EQUIPMENT, net	33,897	32,203
GOODWILL	11,619	11,619
DEFERRED INCOME TAXES	—	3,365
OTHER ASSETS	294	61
	\$ 187,793	\$ 172,320
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>		
<b>CURRENT LIABILITIES:</b>		
Current portion of long-term obligations	\$ 58	\$ 185
Accounts payable	28,268	19,139
Accrued liabilities and other	13,233	11,501
Total current liabilities	41,559	30,825
LONG-TERM OBLIGATIONS, less current portion	9	56
<b>COMMITMENTS AND CONTINGENCIES (Notes 5 and 7)</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, 11,694,525 and 11,627,315 outstanding at September 30, 2010 and December 31, 2009, respectively	117	116
Additional paid-in capital	162,266	161,512
Accumulated deficit	(15,680)	(22,606)
Accumulated other comprehensive income	(478)	2,417
Total shareholders' equity	\$ 146,225	\$ 141,439
	\$ 187,793	\$ 172,320

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,	
	2010	2009	2010	2009
NET SALES	\$73,664	\$57,547	\$227,215	\$170,558
COSTS AND EXPENSES:				
Costs of operations	62,253	48,695	193,953	145,238
Selling, general and administrative expenses	6,499	5,954	19,653	18,209
Interest expense, net	60	234	246	794
Other expense (income)	37	(83)	127	(367)
Total costs and expenses	68,849	54,800	213,979	163,874
INCOME BEFORE INCOME TAXES	4,815	2,747	13,236	6,684
INCOME TAX PROVISION	1,891	1,047	5,146	2,685
NET INCOME	\$2,924	\$1,700	\$8,090	\$3,999
BASIC INCOME PER COMMON SHARE	\$0.25	\$0.15	\$0.69	\$0.34
DILUTED INCOME PER COMMON SHARE	\$0.24	\$0.14	\$0.67	\$0.34
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	11,687	11,608	11,661	11,604
Diluted	12,168	11,971	12,151	11,842

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	
	2010	2009
<b>OPERATING ACTIVITIES:</b>		
Net income	\$8,090	\$3,999
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization	2,540	2,642
Amortization of deferred financing costs	25	35
Provision for doubtful accounts	166	508
Loss on disposal of equipment	—	17
Stock-based compensation	299	299
Issuance of non-employee director shares	94	75
Deferred income tax provision	4,418	869
Changes in operating assets and liabilities:		
Accounts receivable	(17,873 )	11,906
Inventories	4,804	9,004
Prepaid expenses and other	(510 )	(320 )
Other long-term assets	(257 )	—
Accounts payable	9,682	(6,743 )
Accrued liabilities and other	2,282	(160 )
Net cash flows from operating activities	13,760	22,131
<b>INVESTING ACTIVITIES:</b>		
Purchases of property, plant, and equipment	(4,467 )	(606 )
Proceeds from sale of property, plant and equipment	24	1
Payments received on notes receivable	291	139
Net cash flows from investing activities	(4,152 )	(466 )
<b>FINANCING ACTIVITIES:</b>		
Payments on long-term obligations	(155 )	(4,018 )
Borrowings under long-term obligations	—	44
Payments of cash dividends	(1,163 )	—
Proceeds from stock option exercises	362	—
Additions to deferred financing costs	(51 )	—
Net cash flows from financing activities	(1,007 )	(3,974 )
<b>EFFECT OF EXCHANGE RATE CHANGES ON CASH AND TEMPORARY INVESTMENTS</b>		
	(1,799 )	1,076
<b>NET CHANGE IN CASH AND TEMPORARY INVESTMENTS</b>	<b>6,802</b>	<b>18,767</b>
CASH AND TEMPORARY INVESTMENTS, beginning of period	36,160	19,445
CASH AND TEMPORARY INVESTMENTS, end of period	\$42,962	\$38,212
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:</b>		
Cash payments for interest	\$491	\$939
Cash payments for income taxes, net of refunds	\$977	\$2,348

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, 2009. 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 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 exercise of outstanding stock options resulting in approximately 481,000 and 363,000 potential dilutive common shares for the three months ended September 30, 2010 and 2009, respectively, and 490,000 and 238,000 for the nine months ended September 30, 2010 and 2009. For the three and nine months ended September 30, 2010, none of the outstanding stock options would have been anti-dilutive. Options to purchase approximately 5,000 and 124,000 shares of common stock, respectively, were outstanding during the three and nine months ended September 30, 2009, respectively, but were not included in the computation of diluted earnings per share because the effect would have been anti-dilutive.

3. INVENTORIES

Inventory costs include materials, labor and factory overhead. Inventories are stated at the lower of cost or market (net realizable value), determined on a first-in, first-out basis. Appropriate consideration is given to obsolescence, valuation and other factors in determining net realizable value. Revisions of these estimates could result in the need for adjustments. Inventories, net of reserves, at September 30, 2010 and December 31, 2009 consisted of the following (in thousands):

	September 30, 2010	December 31, 2009
Chassis	\$ 5,403	\$ 7,183
Raw materials	13,531	14,114

Work in process	5,700	6,190
Finished goods	5,123	8,574
	\$ 29,757	\$ 36,061

## 4. GOODWILL AND LONG-LIVED ASSETS

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

## 5. LONG-TERM OBLIGATIONS

Long-term obligations consisted of the following at September 30, 2010 and December 31, 2009 (in thousands):

	September 30, 2010	December 31, 2009
Outstanding borrowings under Current Credit Facility	—	—
Equipment and other notes payable	67	241
	67	241
Less current portion	(58 )	(185 )
	\$ 9	\$ 56

Certain equipment is pledged as collateral under the Company's equipment notes payable.

Future maturities of long-term obligations at September 30, 2010 (which consist solely of equipment and other notes payable) are as follows (in thousands):

2011	\$58
2012	9
	\$67

## Credit Facility and Other Obligations

## Current Credit Facility

On April 6, 2010, the Company entered into a Loan Agreement (the "Current Loan Agreement") with First Tennessee Bank National Association for a \$20.0 million unsecured revolving credit facility (the "Current Credit Facility"). 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 Current Credit Facility bear interest at the LIBOR Rate plus 1.75% 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. The Current Credit Facility is scheduled to expire on March 31, 2012.

At September 30, 2010 and December 31, 2009, the Company had no outstanding borrowings under the Current Credit Facility.

Previous Credit Facility

On April 6, 2010, in connection with the consummation of the Current Credit Facility, the Company terminated its Credit Agreement with Wachovia Bank, National Association, which provided for a \$27.0 million senior secured credit facility.

## Interest Rate Risk

Changes in interest rates affect the interest paid on indebtedness under the Current Credit Facility because outstanding amounts of indebtedness under the Current Credit Facility are subject to variable interest rates. Under the Current Credit Facility, the non-default rate of interest was equal to the LIBOR Market Index Rate plus 1.75% per annum (for a rate of interest of 2.01% at September 30, 2010). Because there were no amounts outstanding under the Current Credit Facility, a one percent change in the interest rate on our variable-rate debt would not have a material impact on our financial position, results of operations or cash flows for the three-month period ended September 30, 2010.

## 6. STOCK-BASED COMPENSATION

Stock compensation expense for each of the three months ended September 30, 2010 and 2009 was \$100,000 and \$299,000 for each of the nine months ended September 30, 2010 and 2009, and is included in selling, general and administrative expenses in the accompanying consolidated statements of income. The Company did not issue any stock options during the nine months ended September 30, 2010. As of September 30, 2010, the Company had \$831,000 of unrecognized compensation expense related to stock options with \$100,000 to be expensed during the remainder of 2010, \$399,000 to be expensed in 2011, and \$332,000 to be expensed in 2012. 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, 2009.

## 7. 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 \$12.7 million at September 30, 2010, and \$11.3 million at December 31, 2009. 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.

At September 30, 2010, the Company had commitments of approximately \$0.8 million for construction and acquisition of property, plant and equipment.

### 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.

## 8. INCOME TAXES

At September 30, 2010 and December 31, 2009, 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 consolidated statement of income.

The Company is subject to United States federal income taxes, as well as income taxes in various states and foreign jurisdictions. The Company's tax years 2007 through 2009 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 2007.

## 9. SHAREHOLDERS EQUITY

### Comprehensive Income

The Company had comprehensive income of \$3.9 million and \$1.9 million for the three months ended September 30, 2010 and 2009, respectively, and comprehensive income of \$5.2 and \$6.0 million for the nine months ended September 30, 2010 and 2009. Components of the Company's other comprehensive income consist primarily of foreign currency translation adjustments.

### Dividends

On March 8, 2010, the Company's board of directors adopted a dividend policy to consider and pay annual cash dividends subject to the Company's ability to satisfy all applicable statutory requirements and the Company's continued financial strength, and declared the first such annual cash dividend of \$.10 per share of common stock. The dividend of \$1,163,000 was paid on March 25, 2010 to shareholders of record as of March 18, 2010.

## 10. GEOGRAPHIC AND CUSTOMER INFORMATION

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

	For the Three Months Ended		For the Nine Months Ended	
	September 30,		September 30,	
	2010	2009	2010	2009
Net Sales:				
North America	\$ 63,677	\$ 45,023	\$ 190,773	\$ 128,448
Foreign	9,987	12,524	36,442	42,110
	\$ 73,664	\$ 57,547	\$ 227,215	\$ 170,558

	September 30, 2010	December 31, 2009
Long Lived Assets:		
North America	\$ 42,928	\$ 40,896
Foreign	2,588	2,926
	\$ 45,516	\$ 43,822

The Company's largest customer accounted for 22.0% and 19.8% of consolidated net sales for the three months ended September 30, 2010 and 2009, respectively, and 18.8% and 19.9% for the nine months ended September 30, 2010 and 2009. The Company's largest customer represented 20.5% and 16.5% of accounts receivable as of September 30, 2010 and December 31, 2009, respectively.



11. RECENT ACCOUNTING PRONOUNCEMENTS

In May 2009, the FASB issued authoritative guidance under ASC 855. This guidance incorporates into authoritative accounting literature certain guidance that already existed within generally accepted auditing standards, with the requirements concerning recognition and disclosure of subsequent events remaining essentially unchanged. This guidance addresses events which occur after the balance sheet date but before the issuance of financial statements. Under ASC 855, as under previous practice, an entity must record the effects of subsequent events that provide evidence about conditions that existed at the balance sheet date and must disclose but not record the effects of subsequent events which provide evidence about conditions that did not exist at the balance sheet date. This standard added an additional required disclosure relative to the date through which subsequent events have been evaluated and whether that is the date on which the financial statements were issued.

In February 2010, the FASB issued FASB Accounting Standards Update 2010-09, Subsequent Events: Amendments to Certain Recognition and Disclosure Requirements (“ASU 2010-09”), which amends FASB ASC Topic 855, Subsequent Events. The update provides that SEC filers, as defined in ASU 2010-09, are no longer required to disclose the date through which subsequent events have been evaluated in originally issued and revised financial statements. The update also requires SEC filers to evaluate subsequent events through the date the financial statements are issued rather than the date the financial statements are available to be issued. The Company adopted ASU 2010-09 upon issuance. This update had no impact on the Company’s financial position, results of operations or cash flows. The Company evaluated subsequent events through the date the financial statements were issued.

## 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 and over the course of 2009 and 2010 the overall demand for our products and our resulting revenues continued to be negatively affected by:

wavering levels of consumer confidence;

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

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

the overall effects of the global economic downturn.

We remain concerned about the continuing effects of the economic downturn on the towing and recovery industry and with the cooperation of our employees have continued in place certain steps implemented in 2009 to lower our costs in response to these uncertainties. These steps included headcount reductions for certain non-production personnel and reductions in certain administrative expenses. Due to increased demand for our domestic products and higher

production of follow-on government orders through prime contracts during 2010, production hours at all facilities have been restored and reduced work weeks and furloughs have been eliminated. We will continue to monitor our overall cost structure to ensure 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 costs of operations. In the past, as we have determined necessary, we have implemented price increases to offset these higher costs. We also developed alternatives to some of the components used in our production process that incorporate these raw materials, and our suppliers have implemented these alternatives in the production of our component parts. We continue to monitor raw material prices and availability in order to more favorably position the Company in this dynamic market.

During the second half 2008, we began to secure follow-on governmental orders through prime contractors for which we now expect production to continue into the third quarter of 2011. Through these follow-on orders, along with continued performance in the government and international marketplace, we were able to somewhat offset significantly lower demand from our commercial customers which began in the second half of 2008. Although demand has not recovered to pre-2008 levels, we have seen strengthening demand for our domestic products from our commercial customers during 2010. We continue to work to fulfill follow-on governmental orders and orders from commercial customers, and to secure additional export and governmental orders, but we cannot predict the success or timing of any such orders. For the three months ended September 30, 2010, 22.0% of our consolidated sales were made to the U.S. federal government through prime contractors.

There were no borrowings under the current credit facility at September 30, 2010.

#### Critical Accounting Policies

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

#### Accounts receivable

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

#### 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.

#### 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 to changes in deferred tax assets. 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 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 consolidated statement of income.

#### Results of Operations—Three Months Ended September 30, 2010 Compared to Three Months Ended September 30, 2009

Net sales for the three months ended September 30, 2010 increased 28.0% to \$73.7 million from \$57.5 million for the comparable period in 2009. This increase is attributable to increased demand for our domestic products particularly for completed recovery vehicles containing company-purchased chassis, as well as higher production of follow-on government orders through prime contractors. These increases were partially offset by lower foreign sales.

Costs of operations for the three months ended September 30, 2010 increased 27.8% to \$62.3 million from \$48.7 million for the comparable period in 2009, which was attributable to the increase in domestic and governmental sales described above. Overall, costs of operations decreased slightly as a percentage of sales from 84.6% to 84.5% primarily due to product mix.

Selling, general, and administrative expenses for the three months ended September 30, 2010 increased to \$6.5 million from \$5.9 million for the three months ended September 30, 2009. The increase was attributable to higher production due to higher sales levels during the period. As a percentage of sales, selling, general, and administrative expenses decreased to 8.8% for the three months ended September 30, 2010 from 10.3% for the three months ended September 30, 2009 due to the fixed nature of certain of these expenses.

Total interest expense decreased to \$0.1 million for the three months ended September 30, 2010 from \$0.2 million for the comparable year-ago period. Decreases in interest expense were primarily due to lower interest on distributor floor plan financing and decreases in interest on chassis purchases.

Other income and expense relate to foreign currency transaction gains and losses. During the three months ended September 30, 2010, the loss was \$37,000 compared to a gain of \$83,000 for the prior year period.

The provision for income taxes for the three months ended September 30, 2010 and 2009 reflects a combined effective U.S. federal, state and foreign tax rate of 39.3% and 38.1%, respectively.

#### Results of Operations—Nine Months Ended September 30, 2010 Compared to Nine Months Ended September 30, 2009

Net sales for the nine months ended September 30, 2010 increased 33.2% to \$227.2 million from \$170.6 million for the comparable period in 2009. This increase is attributable to increased demand for our domestic products particularly for completed recovery vehicles containing company-purchased chassis, as well as higher production of follow-on government orders through prime contractors. These increases were partially offset by lower foreign sales.

Costs of operations for the nine months ended September 30, 2010 increased 33.5% to \$193.9 million from \$145.2 million for the comparable period in 2009, which was attributable to the increase in domestic and governmental sales described above. Overall, costs of operations increased slightly as a percentage of sales from 85.2% to 85.4% primarily due to product mix.

Selling, general, and administrative expenses for the nine months ended September 30, 2010 increased to \$19.7 million from \$18.2 million for the nine months ended September 30, 2009. The increase was attributable to higher production due to higher sales levels during the period. As a percentage of sales, selling, general, and administrative expenses decreased to 8.7% for the nine months ended September 30, 2010 from 10.7% for the nine months ended September 30, 2009 due to the fixed nature of certain of these expenses.

Total interest expense decreased to \$0.2 million for the nine months ended September 30, 2010 from \$0.8 million for the comparable year-ago period. Decreases in interest expense were primarily due to lower interest on distributor floor plan financing and decreases in interest on chassis purchases.

Other income and expense relate to foreign currency transaction gains and losses. During the nine months ended September 30, 2010, the loss was \$0.1 compared to a gain of \$0.3 million for the prior year period.

The provision for income taxes for the nine months ended September 30, 2010 and 2009 reflects a combined effective U.S. federal, state and foreign tax rate of 38.9% and 40.2%, respectively.

#### Liquidity and Capital Resources

Cash provided by operating activities was \$13.8 million for the nine months ended September 30, 2010, compared to \$22.1 million for the comparable period in 2009. The cash provided by operating activities for the nine months ended September 30, 2010 reflects the profitability generated in the first three quarters of 2010 and the utilization of deferred



tax assets. The change in cash provided by operating activities is attributable to increases in accounts receivable partially offset by increases in accounts payable.

Cash used in investing activities was \$4.1 million for the nine months ended September 30, 2010 compared to \$0.4 million for the comparable period in 2009. The cash used in investing activities was primarily for the purchase of property, plant and equipment.

Cash used in financing activities was \$1.0 million for the nine months ended September 30, 2010, compared to \$4.0 million for the comparable period in 2009. The cash used in financing activities was used to pay cash dividends as well as repay equipment and other notes payable.

As of September 30, 2010, we had cash and cash equivalents of \$43.0 million, exclusive of unused availability under our current credit facility. Our primary cash requirements include working capital, capital expenditures, the funding of any declared cash dividends and interest and principal payments on indebtedness, if any, under our current credit facility. At September 30, 2010, the Company had commitments of approximately \$0.8 million 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, 2010, with borrowings under our current credit facility being available if needed. We expect these sources to be sufficient to satisfy our cash needs during 2010 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.

#### Credit Facilities and Other Obligations

##### Current Credit Facility

On April 6, 2010, the Company entered into a Loan Agreement with First Tennessee Bank National Association for a \$20.0 million unsecured revolving credit facility. 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 current credit facility bear interest at the LIBOR Rate plus 1.75% 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. The current credit facility is scheduled to expire on March 31, 2012.

At September 30, 2010 and December 31, 2009, the Company had no outstanding borrowings under the current credit facility.

##### Previous Credit Facility

On April 6, 2010, in connection with the consummation of the current credit facility, the Company terminated its Credit Agreement with Wachovia Bank, National Association, which provided for a \$27.0 million senior secured credit facility.

##### Other Long-Term Obligations

At September 30, 2010 we had approximately \$0.1 million of equipment notes payable and other long-term obligations. We also had approximately \$1.6 million 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.

13

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#### Interest Rate Risk

Changes in interest rates affect the interest paid on indebtedness under our current credit facility because the outstanding amounts of indebtedness under our current credit facility are subject to variable interest rates. Under our current credit facility, the non-default rate of interest was equal to the LIBOR Market Index Rate plus 1.75% per annum (for a rate of interest of 2.01% at September 30, 2010). Because there were no amounts outstanding under the current credit facility, a one percent change in the interest rate on our variable-rate debt would not have materially impacted our financial position, results of operations or cash flows for the quarter ended September 30, 2010.

#### 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, and not through the use of any financial or derivative instruments, forward contracts or hedging activities. Because we report in U.S. dollars on a consolidated basis, foreign currency exchange fluctuations could have a translation impact on our financial position. At September 30, 2010, we recognized a \$2.9 million decrease in our foreign currency translation adjustment account compared with December 31, 2009 because of strengthening of the U.S. dollar against certain foreign currencies. During the three months ended September 30, 2010 and 2009, the impact of foreign currency exchange rate changes on our results of operations and cash flows was a loss of \$37,000 and a gain of \$83,000, respectively. The impact of foreign currency exchange rate changes on our results of operations and cash flows was a loss of \$127,000 and a gain of \$367,000 for the nine months ended September 30, 2010 and 2009, respectively.

#### ITEM 4. CONTROLS AND PROCEDURES

Within 90 days prior to the filing date of this report, we carried out an evaluation, under the supervision and with the participation of our management, including our Co-Chief Executive Officers (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, 2009.

ITEM 6.

EXHIBITS

- 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\*

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\* Filed herewith

SIGNATURES

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

MILLER INDUSTRIES, INC.

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

Date: November 9, 2010