MILLER INDUSTRIES INC /TN/
Form 10-Q
November 07, 2018

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

FORM 10-Q

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

For the quarterly period ended September 30, 2018

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

For the transition period from to

Commission file number 001-14124

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

Tennessee	**62-1566286**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
8503 Hilltop Drive	
Ooltewah, Tennessee	**37363**
(Address of principal executive offices)	(Zip Code)

(423) 238-4171
(Registrant's telephone number, including area code)

Not Applicable
(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 x No o

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act:

Large accelerated filer o	Accelerated filer x
Non-accelerated filer o	Smaller reporting company o
Emerging growth company o	

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. o

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

Yes o No x

The number of shares outstanding of the registrant’s common stock, par value $.01 per share, as of October 31, 2018 was 11,394,546.

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FORWARD-LOOKING STATEMENTS

Certain statements in this Quarterly Report on 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," statements made with respect to future operating results, expectations of future customer orders and the availability of resources necessary for our business 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," "project," "plan," "intend," "seek," "estimate," "predict," "expect," "antic expressions, or the negative of such terms, or other 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, the cyclical nature of our industry and changes in consumer confidence; economic and market conditions; our customers' access to capital and credit to fund purchases; our dependence upon outside suppliers for our raw materials, including aluminum, steel, petroleum-related products and other purchased component parts; changes in price (including as a result of the imposition of tariffs) of aluminum, steel, petroleum-related products and other purchased component parts; delays in receiving supplies of such materials or parts; changes in fuel and other transportation costs, insurance costs and weather conditions; changes in government regulation; various political, economic and other uncertainties relating to our international operations, including restrictive taxation and foreign currency fluctuation; failure to comply with domestic and foreign anti-corruption laws; competitors could impede our ability to attract or retain customers; our ability to develop or acquire proprietary products and technology; assertions against us relating to intellectual property rights; problems hiring or retaining skilled labor; a disruption in our information technology systems or any violation of data protection laws; changes in the tax regimes and related government policies and regulations in the countries in which we operate; the effects of regulations relating to conflict minerals; the catastrophic loss of one of our manufacturing facilities; environmental and health and safety liabilities and requirements; loss of the services of our key executives; product warranty or product liability claims in excess of our insurance coverage; potential recalls of components or parts manufactured for us by suppliers or potential recalls of defective products; an inability to acquire insurance at commercially reasonable rates; and those other risks referenced herein, including those risks referred to in Part II, Item 1A–"Risk Factors" in this Quarterly Report on Form 10-Q 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 the year ended December 31, 2017 (as the same may be updated from time to time in subsequent quarterly reports), 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

MILLER INDUSTRIES, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

(In thousands, except share data)

	September 30, 2018 (Unaudited)	December 31, 2017
ASSETS		
CURRENT ASSETS:		
Cash and temporary investments	$ 18,665	$ 21,895
Accounts receivable, net of allowance for doubtful accounts of $1,183 and $1,038 at September 30, 2018 and December 31, 2017, respectively	155,693	132,699
Inventories, net	84,104	68,567
Prepaid expenses	3,610	4,272
Total current assets	262,072	227,433
PROPERTY, PLANT, AND EQUIPMENT, net	84,373	77,628
GOODWILL	11,619	11,619
OTHER ASSETS	583	558
	$ 358,647	$ 317,238
LIABILITIES AND SHAREHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 100,900	$ 79,304
Accrued liabilities	26,295	22,001
Long-term obligations due within one year	389	394
Total current liabilities	127,584	101,699
LONG-TERM OBLIGATIONS	10,488	10,212
NONCURRENT TAXES PAYABLE	—	1,102
DEFERRED INCOME TAX LIABILITIES	1,248	1,125
	139,320	114,138
COMMITMENTS AND CONTINGENCIES (Notes 6 and 7)		
SHAREHOLDERS' EQUITY:		
	—	—

Preferred stock, $0.01 par value; 5,000,000 shares authorized, none issued or outstanding		
Common stock, $0.01 par value; 100,000,000 shares authorized, 11,394,546 and 11,378,482, outstanding at September 30, 2018 and December 31, 2017, respectively	114	114
Additional paid-in capital	150,905	150,699
Accumulated surplus	72,606	55,580
Accumulated other comprehensive loss	(4,298)	(3,293)
Total shareholders’ equity	219,327	203,100
	$ 358,647	$ 317,238

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

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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	
	2018	2017	2018	2017
NET SALES	$195,690	$153,363	$531,738	$455,385
COSTS OF OPERATIONS	174,214	137,713	470,556	406,737
GROSS PROFIT	21,476	15,650	61,182	48,648
OPERATING EXPENSES:				
Selling, general and administrative expenses	9,450	8,580	28,717	26,690
NON-OPERATING (INCOME) EXPENSES:				
Interest expense, net	525	469	1,429	1,162
Other (income) expense, net	76	(106)	(212)	(590)
Total expense, net	10,051	8,943	29,934	27,262
INCOME BEFORE INCOME TAXES	11,425	6,707	31,248	21,386
INCOME TAX PROVISION	2,748	2,251	8,301	7,666
NET INCOME	$8,677	$4,456	$22,947	$13,720
BASIC INCOME PER COMMON SHARE	$0.76	$0.39	$2.02	$1.21
DILUTED INCOME PER COMMON SHARE	$0.76	$0.39	$2.01	$1.21
CASH DIVIDENDS DECLARED PER COMMON SHARE	$0.18	$0.18	$0.54	$0.54
WEIGHTED AVERAGE SHARES OUTSTANDING:				
Basic	11,389	11,364	11,386	11,357
Diluted	11,393	11,373	11,393	11,376

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

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

(In thousands)
(Unaudited)

	Three Months Ended September 30		Nine Months Ended September 30	
	2018	2017	2018	2017
net income	$ 8,677	$ 4,456	$ 22,947	$ 13,720
Other comprehensive income (loss):				
Foreign currency translation adjustment	62	1,746	(453)	3,444
Total other comprehensive income (loss)	62	1,746	(453)	3,444
comprehensive income	$ 8,739	$ 6,202	$ 22,494	$ 17,164

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	
	2018	2017
OPERATING ACTIVITIES:		
Net income	$22,947	$13,720
Adjustments to reconcile net income to net cash flows from operating activities:		
Depreciation and amortization	5,577	4,169
(Gain) loss on disposal of property, plant and equipment	133	(624)
Provision for doubtful accounts	163	(32)
Issuance of non-employee director shares	150	150
Deferred tax provision	123	14
Changes in operating assets and liabilities:		
Accounts receivable	(25,807)	(9,318)
Inventories	(13,846)	960
Prepaid expenses	656	1,815
Other assets	(25)	28
Accounts payable	21,792	(6,661)
Accrued liabilities	3,508	4,425
Net cash flows from operating activities	15,371	8,646
INVESTING ACTIVITIES:		
Purchases of property, plant and equipment	(12,651)	(19,246)
Proceeds from sale of property, plant and equipment	117	1,303
Net cash flows from investing activities	(12,534)	(17,943)
FINANCING ACTIVITIES:		
Net borrowings under credit facility	—	15,000
Payments of cash dividends	(6,149)	(6,139)
Net proceeds from other long-term obligations	281	143
Proceeds from exercise of stock options	56	—
Net cash flows from financing activities	(5,812)	9,004
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND TEMPORARY INVESTMENTS	(255)	2,677
NET CHANGE IN CASH AND TEMPORARY INVESTMENTS	(3,230)	2,384
CASH AND TEMPORARY INVESTMENTS, beginning of period	21,895	31,115
CASH AND TEMPORARY INVESTMENTS, end of period	$18,665	$33,499
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash payments for interest	$1,788	$1,620
Cash payments for income taxes, net of refunds	$6,136	$2,672

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

MILLER INDUSTRIES, INC. AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)
(in thousands, except share data and except as otherwise noted)

1. BASIS OF PRESENTATION

The condensed consolidated financial statements of Miller Industries, Inc. and subsidiaries (the “Company”) included herein have been prepared by the Company pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”). 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 (“GAAP”) 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, 2017. The condensed consolidated financial statements include accounts of certain subsidiaries whose fiscal closing dates differ from December 31st by 31 days (or less) to facilitate timely reporting.

2. RECENT ACCOUNTING PRONOUNCEMENTS

Recently Issued Standards

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

The amendments will be effective for financial statements issued for annual periods, and interim periods within these annual periods, beginning after December 15, 2018, with early adoption permitted. See "Credit Facilities and Other Obligations" within Item 2 for the Company's current lease commitments. The Company plans to use the modified retrospective approach and will elect to initially apply the update with a cumulative-effect adjustment to the opening balance of retained earnings at the date of adoption. The adoption of this update will not have a material impact on the Company's consolidated financial statements.

In August 2018, the FASB issued ASU 2018-15 Intangibles – Goodwill and Other – Internal-Use Software (Subtopic 350-40) to align the requirements for capitalizing implementation costs incurred in cloud computing arrangements that are service contracts with the requirements for capitalizing implementation costs incurred to develop or obtain internal-use software. The update will be effective for financial statements issued for annual periods, and interim periods within these annual periods, beginning after December 15, 2019, with early adoption permitted. The Company plans to apply the amendments in the update prospectively to all implementation costs incurred after the date of the adoption. The adoption of this update will not have a material impact on the Company's consolidated financial statements and related disclosures.

In August 2018, the SEC issued a final rule to amend certain redundant or outdated disclosure requirements to simplify compliance with financial reporting. In an effort to reduce such duplicative disclosures, many requirements of the SEC were either eliminated or reduced where GAAP had identical or similar disclosure provisions for the notes to financial statements. In other instances, disclosure requirements were enhanced to improve transparency. The amendments will be effective for financial statements issued after November 5, 2018 and the adoption will not have a material impact on the Company's consolidated financial statements and related disclosures.

Recently Adopted Standards

In May 2014, the FASB issued ASU 2014-09, Revenue—Revenue from Contracts with Customers. The Company has adopted the update and all related amendments with an effective date of January 1, 2018 using the modified retrospective method, thus recognizing the cumulative effect of adopting the update as an adjustment to the opening balance of retained earnings. The Company applied the amendments to contracts that were not completed as of the adoption date. Comparative information has not been restated and continues to be reported under the accounting standards in effect for the periods prior to the effective date.

As a result of the adoption, effective January 1, 2018, the Company began including the costs of painting activities as performance obligations within each contract, which results in a delay in recognition of revenue until such activities are complete and the product is shipped. With the exception of certain extended service contracts on a small percentage of units sold, the Company's performance obligations are complete and sales revenue is recognized when products are shipped from the Company's facilities.

We do not anticipate the adoption of the update to have a material impact on an ongoing basis to the Company's consolidated financial statements and related disclosures. The cumulative effect adjustment to the consolidated balance sheets as of January 1, 2018 was as follows:

	Balance at December 31, 2017	**Cumulative Effect Adjustment**	**Balance at January 1, 2018**
Assets			
Accounts Receivable, net	$ 132,699	$ (2,496)	$ 130,203
Inventories, net	68,567	1,996	70,563
Liabilities and Shareholders' Equity			
Accrued Liabilities	22,001	(176)	21,825
Accumulated Surplus	55,580	(324)	55,256

In accordance with the new revenue standard requirements, the impact of the adoption to the consolidated statement of income during the three and nine months ended September 30, 2018 and the consolidated balance sheet as of September 30, 2018 was as follows: