

MILLER INDUSTRIES INC /TN/
Form 10-Q/A
August 22, 2002

**SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

**Amendment No. 1 to
FORM 10-Q**

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d)
OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended June 30, 2002
Commission File No. 0-24298

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)

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

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 ☐

The number of shares outstanding of the registrant's Common Stock, \$.01 par value, as of July 31, 2002 was 9,341,436.

A sentence in Item 2, Management's Discussion and Analysis of Financial Condition and Results of Operations, of the Registrant's Quarterly Report on Form 10-Q for the quarter ended June 30, 2002 contained an incorrect number, due to an inadvertent typographical error. The sentence previously stated, "In addition to the borrowings under the senior and junior credit facilities described above, the Company had approximately \$3.0 million of mortgage notes payable, equipment notes payable and other long-term obligations at June 30, 2002." The amended sentence now states, "In addition to the borrowings under the senior and junior credit facilities described above, the Company had approximately \$5.2 million of mortgage notes payable, equipment notes payable and other long-term obligations at June 30, 2002." The only change to Item 2 effected by this Amendment is to correct this typographical error. Pursuant to Rule 12b-15 under the Securities Exchange Act of 1934, this Amendment sets forth the complete text of Item 2, as amended.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Recent Developments

Towing Services Initiatives

During the six months ended June 30, 2002, the Company continued its efforts to reduce expenses in the towing services segment. As part of these efforts, the Company disposed of assets in underperforming markets, as well as assets in certain other markets for proceeds of approximately \$3,572,000. The Company plans to aggressively continue these efforts. The Company also continues to investigate financial alternatives with respect to the overall towing services segment.

Change in Fiscal Year

On September 25, 2001, the Company announced that its Board of Directors had approved a change in the Company's fiscal year, from April 30 to December 31, effective December 31, 2001. The change to a December 31 fiscal year will enable the Company to report results on a conventional calendar basis beginning in 2002. As a result of the change in fiscal year, the Company filed a transition report for the eight month period ended December 31, 2001.

Discontinued Operations

During the quarter ended June 30, 2002 the Company's management and board of directors approved a plan to dispose of certain identified assets, which primarily consist of underperforming market, of the towing services segment. These assets are considered a "disposal group" in accordance with the guidance set forth in SFAS No. 144, *Accounting for the Impairment or Disposal of Long Lived Assets*. Accordingly, these assets are no longer being depreciated, and all assets and liabilities and results of operations associated with these assets have been separately presented in the accompanying financial statements as discontinued operations. Prior period financial information has been reclassified to conform with this presentation. The discussions and analyses contained herein are of continuing operations, as restated, unless otherwise noted.

Results of Operations--Three Months Ended June 30, 2002 Compared to Three Months Ended June 30, 2001.

Net sales for the three months ended June 30, 2002, decreased 11.3% to \$100.3 million from \$113.0 million for the comparable period in 2001. Net sales in the towing and recovery equipment segment decreased 13.2% from \$86.6 million to \$75.2 million as demand for the Company's towing and recovery equipment continued to be negatively impacted by the cost pressures facing its customers. Net sales in the towing services segment decreased 5.0% from \$26.4 million to \$25.1 million. Revenues in the towing services segment continued to be negatively impacted during the three months ended June 30, 2002 by the impact on the overall transportation industry following the events of September 11th, as well as the sale of several towing services markets.

Costs of operations for the three months ended June 30, 2002, decreased 12.1% to \$86.4 from \$98.2 million for the comparable period in 2001. Costs of operations of the towing and recovery equipment segment decreased slightly as a percentage of net sales from 88.2% to 87.5%. In the towing services segment, costs of operations as a percentage of net sales also decreased slightly from 82.7% to 82.2%.

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Selling, general, and administrative expenses for the three months ended June 30, 2002, remained constant at \$11.0 million.

Net interest expense decreased \$1.3 million to \$2.3 million for the three months ended June 30, 2002 from \$3.6 million for the three months ended June 30, 2001. During the three months ended June 30, 2002, the Company incurred lower interest expense as a result of refinancing its line of credit at more favorable rates in July 2001, as well as a decrease in debt levels.

Income taxes are accounted for on a consolidated basis and are not allocated by segment. Tax expenses for the quarter relate primarily to income taxes of foreign subsidiaries. The effective rate of the provision for income taxes was 40.4% and 29.4% for the three months ended June 30, 2002 and 2001, respectively.

For the three months ended June 30, 2002, the loss from discontinued operations was \$559,000 compared to \$1,669,000 for the prior year period. The loss from the sales of discontinued operations for the three months ended June 30, 2002 and 2001 was \$102,000 and \$60,000, respectively. The decrease in losses is primarily the result of the Company's efforts to dispose of the least profitable operations early in the disposal process.

Results of Operations--Six Months Ended June 30, 2002 Compared to Six Months Ended June 30, 2001.

Net sales for the six months ended June 30, 2002, decreased 8.4% to \$194.5 million from \$212.4 million for the comparable period in 2001. Net sales in the towing and recovery equipment segment decreased 9.3% from \$160.3 million to \$145.5 million as demand for the Company's towing and recovery equipment continued to be negatively impacted by the cost pressures facing its customers. Net sales in the towing services segment decreased 5.9% from \$52.1 million to \$49.0 million. Revenues in the towing services segment continued to be negatively impacted during the six months ended June 30, 2002 by the impact on the overall transportation industry following the events of September 11th.

Costs of operations for the six months ended June 30, 2002, decreased 8.0% to \$167.0 from \$181.5 million for the comparable period in 2001. Costs of operations of the towing and recovery equipment segment decreased slightly as a percentage of net sales from 88.1% to 87.6%. In the towing services segment, costs of operations as a percentage of net sales increased from 77.4% to 80.8% primarily due to declines in revenue of certain underperforming markets and increased insurance costs.

Selling, general, and administrative expenses for the six months ended June 30, 2002, decreased 10.8% to \$21.7 million from \$24.3 million for the comparable period of 2001. The decrease was due primarily to the continued cost reduction efforts implemented in prior fiscal years.

Net interest expense decreased \$2.5 million to \$4.2 million for the six months ended June 30, 2002 from \$6.7 million for the three months ended June 30, 2001. During the six months ended June 30, 2002, the Company incurred lower interest expense as a result of refinancing its line of credit at more favorable rates in July 2001, as well as a decrease in debt levels.

Income taxes are accounted for on a consolidated basis and are not allocated by segment. Tax expenses for the quarter relate primarily to income taxes of foreign subsidiaries. The effective rate of the provision for (benefit from) income taxes was 29.4% for the six months ended June 30, 2002 and not meaningful for the six months ended June 30, 2001.

For the three months ended June 30, 2002, the loss from discontinued operations was \$462,000 compared to \$2,791,000 for the prior year period. The decrease in losses is primarily the result of the Company's efforts to dispose of the least profitable operations early in the disposal process. The gain from the sales of discontinued operations for the three months ended June 30, 2002 and 2001 was \$168,000 and \$60,000, respectively.

Liquidity and Capital Resources

Cash provided by operating activities was \$12.2 million for the six months ended June 30, 2002, which included tax refunds of approximately \$4.2 million, compared to \$24.4 million for the comparable period of 2001. The cash provided by operating activities for the six months ended June 30, 2002 was primarily the result of the aforementioned tax refund received, as well as an increase in accounts payable and a decrease in inventory, partially offset by an increase in accounts receivable.

Cash used in investing activities was \$3.1 million for the six months ended June 30, 2002 compared to \$1.3 million for the comparable period in 2001. The cash used in investing activities was primarily for the purchase of equipment in the towing services segment.

Cash used in financing activities was \$13.4 million for the six months ended June 30, 2002 and \$25.0 million for the comparable period in the prior year. The cash was used primarily to reduce borrowings under Company's credit facilities and other outstanding long-term debt and capital lease obligations.

In July 2001, the Company entered into a new four year senior credit facility (the "Credit Facility") with a syndicate of lenders to replace the existing credit facility. As part of this agreement, the previous credit facility was reduced with proceeds from the Credit Facility and amended to provide for a \$14.0 million subordinated secured facility. The Credit Facility originally consisted of an aggregate \$102.0 million revolving credit facility and an \$8.0 million term loan. The revolving credit facility provides for separate and distinct loan commitment levels for the Company's towing and recovery equipment segment and RoadOne segment, respectively. At June 30, 2002, \$38.7 million and \$29.0 million, respectively were outstanding under the towing and recovery equipment segment and RoadOne portions of the revolving credit facility. In addition, \$5.4 million was outstanding under the senior term loan, and \$14.2 million was outstanding under the subordinated secured facility.

Availability under the revolving Credit Facility is based on a formula of eligible accounts receivable, inventory and fleet vehicles as separately calculated for the towing and recovery equipment segment and the RoadOne segment, respectively. Borrowings under the term loan are collateralized by the Company's property, plant, and equipment. The Company is required to make monthly amortization payments on the term loan of \$167,000. The Credit Facility bears interest at the option of the Company at either the rate of LIBOR plus 2.75% or prime rate (as defined) plus 0.75% on the revolving portion and LIBOR plus 3.0% or prime rate (as defined) plus 1.0% on the term portion.

The Credit Facility matures in July 2005 and is collateralized by substantially all the assets of the Company. The Credit Facility contains requirements relating to maintaining minimum excess availability at all times and minimum quarterly levels of earnings before income taxes, depreciation and amortization (as defined) and a minimum quarterly fixed charge coverage ratio (as defined). In addition, the Credit Facility contains restrictions on capital expenditures, incurrence of indebtedness, mergers and acquisitions, distributions and transfers and sales of assets. The Credit Facility also contains requirements related to weekly and monthly collateral reporting.

The subordinated secured facility is by its terms expressly subordinated only to the Credit Facility. The subordinated secured facility matures in July 2003 and bears interest at 6.0% over the prime rate. The Company is required to make quarterly amortization payments on the subordinated secured facility of \$875,000 beginning not later than May 2002 provided that certain conditions are met, including satisfying a fixed charge coverage ratio test and a minimum availability limit. The subordinated secured facility is collateralized by certain specified assets of the Company and by a second priority lien and security interest in substantially all other assets of the Company. The subordinated secured facility contains requirements for certain fees to be paid at six month intervals beginning in January 2002 based on the outstanding balance of the subordinated secured facility at the time. The subordinated secured facility also contains provisions for the issuance of warrants for up to 0.5% of the outstanding shares of the Company's common stock in July 2002 and up to an additional 1.5% in July, 2003. The number of warrants which may be issued would be reduced pro rata as the balance of the subordinated secured facility is reduced.

The subordinated secured credit facility contains, among other restrictions, requirements for the maintenance of certain financial covenants and imposes restrictions on capital expenditures, incurrence of indebtedness, mergers and acquisitions, distributions and transfers and sales of assets.

2002 Amendments

On February 28, 2002 the Company entered into a Forbearance Agreement and First Amendment to Credit Agreement with the lenders under the Credit Facility, as amended by that certain Amendment to Forbearance Agreement dated as of March 18, 2002 and that certain Second Amendment to the Forbearance Agreement dated as of March 29, 2002 (as so amended, the "Forbearance Agreement"). As a result of a revised asset appraisal conducted by the senior lenders, the senior lenders determined that the amounts outstanding under the Credit Facility should be lowered below the amount then outstanding under the Credit Facility, causing the Company to be over-advanced on its line of credit which resulted in the occurrence of an event of default under the Credit Facility and a corresponding event of default under the Junior Credit Facility. The Forbearance Agreement and subsequent amendments waived the Company's overadvance under the Credit Facility and amended the terms of the credit agreement to, among other things, (i) permanently reduce the commitment levels to \$42.0 million for the towing and recovery equipment segment and \$36.0 million for the RoadOne segment portion of the revolving credit facility and \$6,611,000 for the term loan facility, (ii) eliminate the Company's ability to borrow funds at a LIBOR rate of interest, and (iii) increase the interest rate to a floating rate of interest equal to the prime rate plus 2.75%.

On April 15, 2002 the Company amended the Credit Facility, pursuant to which, among other things: (i) the senior lenders waived the overadvance event of default and other events of default, (ii) interest on advances will be charged at the prime rate (as defined) plus 2.75% on the revolving portion and the term portion, subject to substantial upward adjustments in the interest rate on and after certain specified dates based on the amounts outstanding if the scheduled loan reductions are not achieved under the revolving loan commitment relating to RoadOne (escalating at generally quarterly intervals from prime plus 4.50% as of October 1, 2002 to prime plus 14.00% as of April 1, 2005) and (iii) the revolving loan commitment amount relating to RoadOne is subject to mandatory reductions over time commencing August 12, 2002, which reductions will require a mandatory repayment of portions of outstanding loans at specified dates and the failure to timely make such repayments shall result in an event of default under the bank credit agreements. The RoadOne revolving commitment amount,

which was set at \$36.0 million through the April 15, 2002 amendment, is scheduled to be reduced as follows: August 12, 2002 – to \$34.0 million; October 12, 2002 – to \$30.0 million; March 31, 2003 – to \$27.0 million; thereafter – quarterly reductions of \$3.0 million through June 30, 2005, the approximate stated loan termination date. On April 15, 2002 the Company also amended the Junior Credit Facility, pursuant to which, among other things, (i) the junior lenders waived the events of default, and (ii) extended the time for payment of certain scheduled amortization payments. At June 30, 2002, the balance of the RoadOne revolver was \$29.0 million.

On April 15, 2002, the junior lender agent, the senior lender agent and the Company entered into an Amended and Restated Intercreditor and Subordination Agreement, pursuant to which, among other things, subject to certain terms and conditions, the junior lenders have agreed to defer the required payment of amortization payments under the Junior Credit Facility until November 20, 2002, April 5, 2003 and May 20, 2003 and receive certain of its interest as "payment in kind" to be added to the principal balance.

The Company may continue to have difficulties in the future making the mandatory repayments and complying with the covenants and other requirements of the credit agreement, and in such event would have to seek additional waivers or amendments. Such waivers typically require payment of substantial additional fees, and there can be no assurance that the lenders will agree to any future waivers or amendments. Currently, the Company is involved in discussions with its senior lenders regarding which of its reconditioned inventory should be classified as eligible inventory. The Company's bank facilities are collateralized by liens on all of the Company's assets. The liens give the lenders the right to foreclose on the assets of the Company under certain defined events of default and such foreclosure could allow the lenders to gain control of the operations of the Company.

In addition to the borrowings under the senior and junior credit facilities described above, the Company had approximately \$5.2 million of mortgage notes payable, equipment notes payable and other long-term obligations at June 30, 2002. At June 30, 2002, the Company also had approximately \$20.3 million in non-cancellable operating lease obligations. Approximately, \$16.3 million relates to truck and building leases in the towing services segment.

To improve liquidity and profitably, the Company has focused on cost reduction and expense control, as well as other opportunities for improving operating cash flows. The Company has also disposed of certain underperforming RoadOne assets and operations in order to improve liquidity and to reduce expenses and debt. These efforts have resulted in \$5.0 million reductions to the RoadOne revolver since December 31, 2001. The Company received a tax refund of approximately \$4.2 million during the quarter ended June 30, 2002, which also reduced the RoadOne revolver and cured the overadvance position. Additionally, the towing and recovery equipment revolver and the term loan have been reduced \$1.5 million and \$1.8 million, respectively since year end. The Company plans to aggressively continue these efforts. The Company also continues to investigate financial alternatives with respect to the overall towing services segment.

The Company believes that it will be able to maintain compliance with the financial covenants established by the April 2002 credit facility amendment, which will allow the Company to maintain sufficient liquidity in 2002 to fund operations. Failure to achieve the Company's revenue and income projections could result in failure to comply with the amended debt service requirements. Such non-compliance would result in an event of default, which if not waived by the lending groups would result in the acceleration of the amounts due under the credit facility as well as other remedies. Under these circumstances the Company could be required to find alternative funding sources, such as sale of assets or other financing sources. If the Company were unable to refinance the credit facility on acceptable terms or find an alternative source of repayment for the credit facility, the Company's business and financial condition would be materially and

adversely affected. There is no assurance that the Company would be able to obtain any such refinancing or that it would be able to sell assets on terms that are acceptable to the Company or at all.

The Company believes that cash on hand, cash flows from operations and unused borrowing capacity under the Credit Facility will be sufficient to fund its operating needs, capital expenditures and debt service requirements for the remainder of the current fiscal year. The Company continues to focus on cost reduction and expense control, as well as other opportunities for improving operating cash flow and plans to aggressively continue these efforts. No assurance in this regard can be given, however, since future cash flows and the availability of financing will depend on a number of factors, including prevailing economic conditions and financial, business and other factors beyond the Company's control.

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
Vice President and
Chief Financial Officer

Date: August 22, 2002