

MIDDLEBY CORP
Form 10-Q
November 10, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
FORM 10-Q

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended October 1, 2011

or

Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File No. 1-9973

THE MIDDLEBY CORPORATION
(Exact Name of Registrant as Specified in its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

36-3352497
(I.R.S. Employer Identification No.)

1400 Toastmaster Drive, Elgin, Illinois
(Address of Principal Executive Offices)

60120
(Zip Code)

Registrant's Telephone No., including Area Code (847) 741-3300

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 "accelerated filer, large 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

As of November 4, 2011 there were 18,694,210 shares of the registrant's common stock outstanding.

THE MIDDLEBY CORPORATION AND SUBSIDIARIES

QUARTER ENDED October 1, 2011

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

THE MIDDLEBY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Data)
(Unaudited)

	October 1, 2011	January 1, 2011
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 13,416	\$ 7,656
Accounts receivable, net of reserve for doubtful accounts of \$7,907 and \$7,975	136,670	112,049
Inventories, net	123,543	106,463
Prepaid expenses and other	9,591	11,971
Current deferred taxes	25,960	25,520
Total current assets	309,180	263,659
Property, plant and equipment, net of accumulated depreciation of \$52,453 and \$47,355	59,460	43,656
Goodwill	439,700	369,989
Other intangibles	216,426	189,254
Other assets	5,601	6,614
Total assets	\$ 1,030,367	\$ 873,172
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 6,771	\$ 5,097
Accounts payable	52,473	52,945
Accrued expenses	130,766	125,810
Total current liabilities	190,010	183,852
Long-term debt	296,868	208,920
Long-term deferred tax liability	21,505	11,858
Other non-current liabilities	46,123	43,629
Stockholders' equity:		
Preferred stock, \$0.01 par value; nonvoting; 2,000,000 shares authorized; none issued	—	—
Common stock, \$0.01 par value; 47,500,000 shares authorized; 23,093,338 and 22,691,821 shares issued in 2011 and 2010, respectively	138	137
Paid-in capital	192,574	179,575
Treasury stock at cost; 4,399,128 and 4,233,810 shares in 2011 and 2010, respectively	(124,050)	(111,019)
Retained earnings	421,168	360,254
Accumulated other comprehensive loss	(13,969)	(4,034)
Total stockholders' equity	475,861	424,913
Total liabilities and stockholders' equity	\$ 1,030,367	\$ 873,172

See accompanying notes

THE MIDDLEBY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS
(In Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	Oct 1, 2011	Oct 2, 2010	Oct 1, 2011	Oct 2, 2010
Net sales	\$218,720	\$ 177,793	\$612,147	\$ 511,888
Cost of sales	131,402	107,106	367,662	308,304
Gross profit	87,318	70,687	244,485	203,584
Selling expenses	24,555	17,776	66,692	54,437
General and administrative expenses	25,577	20,900	73,995	60,972
Income from operations	37,186	32,011	103,798	88,175
Net interest expense and deferred financing amortization	2,324	2,177	6,503	6,898
Other (income) expense, net	(424)	(121)	1,022	443
Earnings before income taxes	35,286	29,955	96,273	80,834
Provision for income taxes	11,825	9,353	35,359	28,961
Net earnings	\$23,461	\$ 20,602	\$60,914	\$ 51,873
Net earnings per share:				
Basic	\$ 1.30	\$ 1.16	\$3.38	\$ 2.91
Diluted	\$ 1.26	\$ 1.13	\$3.29	\$ 2.84
Weighted average number of shares				
Basic	18,040	17,815	17,998	17,811
Dilutive equity awards ¹	540	459	537	460
Diluted	18,580	18,274	18,535	18,271

1 There were no anti-dilutive equity awards excluded from common stock equivalents for any period presented.

See accompanying notes

THE MIDDLEBY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In Thousands)
(Unaudited)

	Nine Months Ended	
	Oct 1, 2011	Oct 2, 2010
Cash flows from operating activities-		
Net earnings	\$60,914	\$ 51,873
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	14,667	11,656
Deferred taxes	(900)	(1,698)
Non-cash share-based compensation	12,776	11,058
Unrealized loss on derivative financial instruments	19	4
Changes in assets and liabilities, net of acquisitions		
Accounts receivable, net	(11,741)	(19,344)
Inventories, net	(8,987)	(5,563)
Prepaid expenses and other assets	2,264	2,003
Accounts payable	(9,325)	9,279
Accrued expenses and other liabilities	5,994	6,888
Net cash provided by operating activities	65,681	66,156
Cash flows from investing activities-		
Net additions to property and equipment	(4,880)	(3,008)
Acquisition of Giga	(1,603)	(1,621)
Acquisition of CookTek	(86)	(1,000)
Acquisition of Anets	—	(500)
Acquisition of Doyon	—	(577)
Acquisition of PerfectFry, net of cash acquired	—	(4,607)
Acquisition of Cozzini, net of cash acquired	(2,000)	(17,443)
Acquisition of Beech, net of cash acquired	(12,959)	—
Acquisition of Lincat, net of cash acquired	(82,130)	—
Acquisition of Danfotech, net of cash acquired	(6,111)	—
Acquisition of Maurer	(3,847)	—
Acquisition of Auto-Bake, net of cash acquired	(22,524)	—
Net cash (used in) investing activities	(136,140)	(28,756)
Cash flows from financing activities-		
Net proceeds (repayments) under revolving credit facilities	88,000	(30,050)
Net proceeds (repayments) under foreign bank loan	1,492	(1,508)
Repurchase of treasury stock	(13,031)	(8,780)
Debt issuance costs	(373)	—
Net proceeds from stock issuances	224	565
Net cash provided by (used in) financing activities	76,312	(39,773)

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Effect of exchange rates on cash and cash equivalents	(93)	(4)
Changes in cash and cash equivalents-		
Net increase (decrease) in cash and cash equivalents	5,760	(2,377)
Cash and cash equivalents at beginning of year	7,656	8,363
Cash and cash equivalents at end of the nine-month period	\$13,416	\$5,986
Supplemental disclosure of cash flow information:		
Interest paid	\$5,962	\$6,352
Income tax payments	\$26,389	\$24,283
Non-cash financing and investing activities:		
Stock issuance related to the acquisition of Cozzini	\$-	\$2,090
Contingent consideration related to the acquisition of Cozzini	\$-	\$2,000

See accompanying notes

THE MIDDLEBY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

October 1, 2011
(Unaudited)

1) Summary of Significant Accounting Policies

A) Basis of Presentation

The condensed consolidated financial statements have been prepared by The Middleby Corporation (the "company" or "Middleby"), pursuant to the rules and regulations of the Securities and Exchange Commission. The financial statements are unaudited and certain information and footnote disclosures normally included in 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, although the company believes that the disclosures are adequate to make the information not misleading. These financial statements should be read in conjunction with the financial statements and related notes contained in the company's 2010 Form 10-K. The company's interim results are not necessarily indicative of future full year results for the fiscal year 2011.

In the opinion of management, the financial statements contain all adjustments necessary to present fairly the financial position of the company as of October 1, 2011 and January 1, 2011, and the results of operations for the three and nine months ended October 1, 2011 and October 2, 2010 and cash flows for the nine months ended October 1, 2011 and October 2, 2010.

B) Non-Cash Share-Based Compensation

The company estimates the fair value of market-based stock awards and stock options at the time of grant and recognizes compensation cost over the vesting period of the awards and options. Non-cash share-based compensation expense was \$5.5 million and \$3.7 million for the third quarter periods ended October 1, 2011 and October 2, 2010, respectively. Non-cash share-based compensation expense was \$12.8 million and \$11.1 million for the nine-month periods ended October 1, 2011 and October 2, 2010, respectively.

C) Income Tax Contingencies

As of January 1, 2011, the total amount of liability for unrecognized tax benefits related to federal, state and foreign taxes was approximately \$17.8 million (of which \$15.9 million would impact the effective tax rate if recognized) plus approximately \$2.1 million of accrued interest and \$2.4 million of accrued penalties. The company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. Interest of \$0.1 million and (\$0.1) million were recognized in the third quarter of 2011 and 2010, respectively. Penalties of \$0.1 million and less than (\$0.1) million were recognized in the third quarter of 2011 and 2010, respectively. As of October 1, 2011, there were no significant changes in the total amount of liability for unrecognized tax benefits.

During the next twelve months, it is reasonably possible that the liability for unrecognized tax benefits associated with state, federal and foreign tax positions may decrease due to expiration of statutes on completion of an audit by approximately \$5.5 million.

The company operates in multiple taxing jurisdictions, both within the United States and outside of the United States, and faces audits from various tax authorities. The company remains subject to examination until the statute of limitations expires for the respective tax jurisdiction. Within specific countries, the company and its operating subsidiaries may be subject to audit by various tax authorities and may be subject to different statute of limitations expiration dates. A summary of the tax years that remain subject to examination in the company's major tax jurisdictions are: