MIDDLEBY CORP
Form 10-Q
May 14, 2015

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended April 4, 2015
or
o 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	36-3352497
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1400 Toastmaster Drive, Elgin, Illinois	60120
(Address of Principal Executive Offices)	(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 x No o

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 x No o

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 x Accelerated filer o Non-accelerated filer o Smaller reporting company 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

As of May 8, 2015 there were 57,327,032 shares of the registrant's common stock outstanding.

THE MIDDLEBY CORPORATION AND SUBSIDIARIES

QUARTER ENDED APRIL 4, 2015

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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)

ASSETS	Apr 4, 2015	Jan 3, 2015
Current assets:		
Cash and cash equivalents	$54,259	$43,945
Accounts receivable, net of reserve for doubtful accounts of $9,175 and $9,091	239,342	229,875
Inventories, net	276,383	255,776
Prepaid expenses and other	30,286	27,980
Prepaid taxes	10,023	5,538
Current deferred taxes	51,697	51,017
Total current assets	661,990	614,131
Property, plant and equipment, net of accumulated depreciation of $85,836 and $82,998	142,080	129,697
Goodwill	819,274	808,491
Other intangibles, net of amortization of $118,422 and $111,846	494,379	492,031
Long-term deferred tax assets	3,711	2,925
Other assets	21,402	18,856
Total assets	$2,142,836	$2,066,131
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$8,926	$9,402
Accounts payable	111,424	98,327
Accrued expenses	213,387	220,585
Total current liabilities	333,737	328,314
Long-term debt	630,108	588,765
Long-term deferred tax liability	92,241	88,800
Other non-current liabilities	58,313	53,492
Stockholders' equity:		
Preferred stock, $0.01 par value; nonvoting; 2,000,000 shares authorized; none issued	—	—
Common stock, $0.01 par value; 95,000,000 shares authorized; 62,189,296 and 62,088,592 shares issued in 2015 and 2014, respectively	144	144
Paid-in capital	314,840	310,409
Treasury stock, at cost; 4,862,264 and 4,816,912 shares in 2015 and 2014, respectively	(200,862)	(196,026)
Retained earnings	961,895	923,664
Accumulated other comprehensive loss	(47,580)	(31,431)
Total stockholders' equity	1,028,437	1,006,760
Total liabilities and stockholders' equity	$2,142,836	$2,066,131

See accompanying notes

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

	Three Months Ended	
	Apr 4, 2015	Mar 29, 2014
Net sales	$406,596	$372,478
Cost of sales	249,034	229,502
Gross profit	157,562	142,976
Selling and distribution expenses	47,109	46,970
General and administrative expenses	43,873	40,073
Income from operations	66,580	55,933
Interest expense and deferred financing amortization, net	3,749	3,987
Other expense, net	4,561	865
Earnings before income taxes	58,270	51,081
Provision for income taxes	20,039	17,636
Net earnings	$38,231	$33,445
Net earnings per share:		
Basic	$0.67	$0.59
Diluted	$0.67	$0.59
Weighted average number of shares		
Basic	56,917	56,457
Dilutive common stock equivalents[1]	1	2
Diluted	56,918	56,459
Comprehensive income	$22,082	$35,226

[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)

	Three Months Ended	
	Apr 4, 2015	Mar 29, 2014
Cash flows from operating activities--		
Net earnings	$38,231	$33,445
Adjustments to reconcile net earnings to net cash provided by operating activities--		
Depreciation and amortization	11,232	10,521
Non-cash share-based compensation	2,029	1,938
Deferred taxes	2,975	12,800
Changes in assets and liabilities, net of acquisitions		
Accounts receivable, net	(5,209)	(15,786)
Inventories, net	(15,023)	(5,638)
Prepaid expenses and other assets	2,188	(21,873)
Accounts payable	8,333	(2,415)
Accrued expenses and other liabilities	(21,000)	(26,550)
Net cash provided by (used in) operating activities	23,756	(13,558)
Cash flows from investing activities--		
Additions to property and equipment	(6,117)	(3,231)
Acquisition of Viking Distributors 2014	—	(38,485)
Acquisition of Market Forge	—	(7,240)
Acquisition of Concordia, net of cash acquired	80	—
Acquisition of U-Line, net of cash acquired	275	—
Acquisition of Desmon, net of cash acquired	(13,947)	—
Acquisition of Goldstein Eswood	(27,406)	—
Acquisition of Marsal	(5,500)	—
Net cash used in investing activities	(52,615)	(48,956)
Cash flows from financing activities--		
Net proceeds under current revolving credit facilities	41,500	78,400
Net proceeds under foreign bank loan	432	5,463
Net repayments under other debt arrangement	(9)	(9)
Repurchase of treasury stock	(4,836)	(44,283)
Excess tax benefit related to share-based compensation	2,402	25,044
Net cash provided by financing activities	39,489	64,615
Effect of exchange rates on cash and cash equivalents	(316)	55
Changes in cash and cash equivalents--		
Net increase in cash and cash equivalents	10,314	2,156
Cash and cash equivalents at beginning of year	43,945	36,894
Cash and cash equivalents at end of period	$54,259	$39,050

See accompanying notes

THE MIDDLEBY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
APRIL 4, 2015
(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 2014 Form 10-K. The company’s interim results are not necessarily indicative of future full year results for the fiscal year 2015.

In the opinion of management, the financial statements contain all adjustments necessary to present fairly the financial position of the company as of April 4, 2015 and January 3, 2015, the results of operations for the three months ended April 4, 2015 and March 29, 2014 and cash flows for the three months ended April 4, 2015 and March 29, 2014.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses. Significant estimates and assumptions are used for, but are not limited to, allowances for doubtful accounts, reserves for excess and obsolete inventories, long lived and intangible assets, warranty reserves, insurance reserves, income tax reserves and post-retirement obligations. Actual results could differ from the company's estimates.

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 $2.0 million and $1.9 million for the first quarter periods ended April 4, 2015 and March 29, 2014, respectively.

During the first quarter ended April 4, 2015, the company issued 100,704 restricted shares under its 2011 Stock Incentive Plan. These amounts are contingent on the attainment of certain performance objectives. The aggregate grant-date fair value of these awards was $10.9 million, based on the closing share price of the company's stock at the date of the grant.

C) Income Taxes

As of January 3, 2015, the total amount of liability for unrecognized tax benefits related to federal, state and foreign taxes was approximately $12.5 million (of which $12.2 million would impact the effective tax rate if recognized) plus approximately $1.7 million of accrued interest and $3.0 million of penalties. The company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. As of April 4, 2015, the company recognized a tax expense of $0.7 million for unrecognized tax benefits related to current year tax exposures.

It is reasonably possible that the amounts of unrecognized tax benefits associated with state, federal and foreign tax positions may decrease over the next twelve months due to expiration of a statute or completion of an audit. The company believes that it is reasonably possible that approximately $0.5 million of its currently remaining unrecognized tax benefits may be recognized over the next twelve months as a result of lapses of statutes of limitations.

A summary of the tax years that remain subject to examination in the company’s major tax jurisdictions are:

United States - federal	2012 – 2014
United States - states	2005 – 2014
Australia	2011 – 2014
Brazil	2010 – 2014
Canada	2009 – 2014
China	2005 – 2014
Czech Republic	2013 – 2014
Denmark	2011 – 2014
France	2011 – 2014
Germany	2012 – 2014
India	2013 – 2014
Italy	2010 – 2014
Luxembourg	2011 – 2014
Mexico	2010 – 2014
Philippines	2012 – 2014
South Korea	2010 – 2011
Spain	2009 – 2014
Taiwan	2008 – 2012
United Kingdom	2011 – 2014

D) Fair Value Measures

ASC 820 "Fair Value Measurements and Disclosures" defines fair value as the price that would be received for an asset or paid to transfer a liability (an exit price) in the principal most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 establishes a fair value hierarchy, which prioritizes the inputs used in measuring fair value into the following levels:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Inputs, other than quoted prices in active markets, that are observable either directly or indirectly.

Level 3 – Unobservable inputs based on our own assumptions.

The company’s financial assets and liabilities that are measured at fair value and are categorized using the fair value hierarchy are as follows (in thousands):

	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Total
As of April 4, 2015				
Financial Assets:				
Pension plans	$27,940	$1,115	$—	$29,055
Financial Liabilities:				
Interest rate swaps	$—	$1,609	$—	$1,609
Contingent consideration	$—	$—	$9,269	$9,269
As of January 3, 2015				
Financial Assets:				
Pension plans	$27,647	$1,234	$—	$28,881
Financial Liabilities:				
Interest rate swaps	$—	$810	$—	$810
Contingent consideration	$—	$—	$14,558	$14,558

The contingent consideration as of April 4, 2015 relates to the earnout provisions recorded in conjunction with the acquisitions of Spooner Vicars, PES, Concordia, Desmon and Goldstein Eswood.

The contingent consideration as of January 3, 2015 relates to the earnout provisions recorded in conjunction with the acquisitions of Stewart, Nieco, Spooner Vicars, Market Forge, PES and Concordia.

The earnout provisions associated with these acquisitions are based upon performance measurements related to sales and earnings of the acquired businesses, as defined in the respective purchase agreements. On a quarterly basis the company assesses the projected results for each of the acquired businesses in comparison to the earnout targets and adjusts the liability accordingly.

E) Consolidated Statements of Cash Flows

Cash paid for interest was $3.3 million and $3.7 million for the three months ended April 4, 2015 and March 29, 2014, respectively. Cash payments totaling $16.1 million and $6.8 million were made for income taxes for the three months ended April 4, 2015 and March 29, 2014, respectively.

2) Acquisitions and Purchase Accounting

The company operates in a highly fragmented industry and has completed numerous acquisitions over the past several years as a component of its growth strategy. The company has acquired industry leading brands and technologies to position itself as a leader in the commercial foodservice equipment, food processing equipment and residential kitchen equipment industries.

The company has accounted for all business combinations using the acquisition method to record a new cost basis for the identifiable assets acquired and liabilities assumed. The difference between the purchase price and the fair value of the identifiable assets acquired and liabilities assumed has been recorded as goodwill in the financial statements. The results of operations are reflected in the consolidated financial statements of the company from the dates of acquisition.

Viking

On December 31, 2012 (subsequent to the 2012 fiscal year end), the company completed its acquisition of all of the capital stock of Viking Range Corporation, ("Viking"), a leading manufacturer of kitchen equipment for the residential market, for a purchase price of approximately $361.7 million, net of cash acquired. During the third quarter of 2013, the company finalized the working capital provision provided by the purchase agreement resulting in a return from the seller of $11.2 million.

The final allocation of cash paid for the Viking acquisition is summarized as follows (in thousands):

	(as initially reported) Dec 31, 2012	Measurement Period Adjustments	(as adjusted) Dec 31, 2012
Cash	$6,900	$(121)	$6,779
Current assets	40,794	(2,385)	38,409
Property, plant and equipment	76,693	(20,446)	56,247
Goodwill	144,833	(32,752)	112,081
Other intangibles	152,500	44,500	197,000
Other assets	12,604	865	13,469
Current liabilities	(52,202)	(886)	(53,088)
Other non-current liabilities	(2,386)	(1)	(2,387)
Net assets acquired and liabilities assumed	$379,736	$(11,226)	$368,510

The goodwill and $151.0 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350 "Intangibles - Goodwill and Other." Other intangibles also includes $44.0 million allocated to customer relationships and $2.0 million allocated to backlog which are being amortized over periods of 6 years and 3 months, respectively. Goodwill and other intangibles of Viking are allocated to the Residential Kitchen Equipment Group for segment reporting purposes. These assets are expected to be deductible for tax purposes. Certain acquired assets included in other assets were classified as held for sale at the date of acquisition and were sold during the second quarter of 2013.

Viking Distributors 2013

Subsequent to the acquisition of Viking, the company, through Viking, purchased certain assets of four of Viking's former distributors ("Viking Distributors 2013"). The aggregate purchase price of these transactions as of June 29, 2013 was approximately $23.6 million. This included $8.7 million in forgiveness of liabilities owed to Viking resulting from pre-existing relationships with Viking.

The final allocation of cash paid for the Viking Distributors 2013 is summarized as follows (in thousands):

	(as initially reported) Jun 29, 2013	Measurement Period Adjustments	(as adjusted) Jun 29, 2013
Current assets	$21,390	$(3,599)	$17,791
Property, plant and equipment	1,318	—	1,318
Goodwill	1,709	3,599	5,308
Current liabilities	(804)	—	(804)
Net assets acquired and liabilities assumed	$23,613	$—	$23,613
Forgiveness of liabilities owed to Viking	(8,697)	—	(8,697)
Consideration paid at closing	$14,916	$—	$14,916

The goodwill is subject to the non-amortization provisions of ASC 350 and is allocated to the Residential Kitchen Equipment Group for segment reporting purposes. These assets are expected to be deductible for tax purposes.

Celfrost

On October 15, 2013, the company completed its acquisition of substantially all of the assets of Celfrost Innovations Pvt. Ltd. ("Celfrost"), a preferred commercial foodservice equipment supplier in India with a broad line of cold side products such as professional refrigerators, coldrooms, ice machines and freezers marketed under the Celfrost brand for a purchase price of approximately $11.2 million. An additional deferred payment of $0.4 million was made in the fourth quarter of 2014 as provided for in the purchase agreement. Additional deferred payments of approximately $0.7 million in aggregate are also due to the seller in equal installments on the second and third anniversary of the acquisition.
The final allocation of cash paid for the Celfrost acquisition is summarized as follows (in thousands):

	(as initially reported) Oct 15, 2013	Measurement Period Adjustments	(as adjusted) Oct 15, 2013
Current assets	$5,638	$(124)	$5,514
Property, plant and equipment	182	—	182
Goodwill	5,943	1,718	7,661
Other intangibles	4,333	—	4,333
Other assets	4	—	4
Current liabilities	(3,979)	(1,594)	(5,573)
Other non-current liabilities	(875)	—	(875)
Consideration paid at closing	$11,246	$—	$11,246
Deferred payments	1,067	—	1,067
Net assets acquired and liabilities assumed	$12,313	$—	$12,313

The goodwill and $2.3 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also includes $1.9 million allocated to customer relationships and $0.1 million allocated to backlog which are being amortized over periods of 7 years and 3 months, respectively. Goodwill and other intangibles of Celfrost are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are expected to be deductible for tax purposes.

Wunder-Bar

On December 17, 2013, the company completed its acquisition of all of the capital stock of Automatic Bar Controls, Inc. ("Wunder-Bar"), a leading manufacturer of beverage dispensing systems for the commercial foodservice industry, for a purchase price of approximately $74.1 million, net of cash acquired. During the third quarter of 2014, the company finalized the working capital provision provided by the purchase agreement resulting in a return from the seller of $0.1 million. In July 2014, the company purchased additional assets related to Wunder-Bar for approximately $0.8 million. An additional deferred payment of approximately $0.6 million is also payable to the seller pursuant to the purchase agreement.
The final allocation of cash paid for the Wunder-Bar acquisition is summarized as follows (in thousands):

	(as initially reported) Dec 17, 2013	Measurement Period Adjustments	(as adjusted) Dec 17, 2013
Cash	$857	$—	$857
Current deferred tax asset	50	188	238
Current assets	13,127	656	13,783
Property, plant and equipment	1,735	(312)	1,423
Goodwill	45,056	(3,251)	41,805
Other intangibles	30,000	3,060	33,060
Other assets	—	290	290
Current liabilities	(5,013)	865	(4,148)
Long-term deferred tax liability	(10,811)	(1,280)	(12,091)
Other non-current liabilities	(1)	(365)	(366)
Consideration paid at closing	$75,000	$(149)	$74,851
Additional assets acquired post closing	—	848	848
Deferred payments	—	586	586
Net assets acquired and liabilities assumed	$75,000	$1,285	$76,285

The current deferred tax assets and long term deferred tax liabilities amounted to $0.2 million and $12.1 million, respectively. These net assets are comprised of $0.2 million of assets arising from the difference between the book and tax basis of tangible asset and liability accounts, net of $12.1 million of deferred tax liabilities related to the difference between the book and tax basis of identifiable intangible assets.

The goodwill and $12.7 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also includes $20.2 million allocated to customer relationships and $0.2 million allocated to backlog which are to be amortized over a period of 14 years and 3 months, respectively. Goodwill and other intangibles of Wunder-Bar are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

Market Forge

On January 7, 2014, the company completed its acquisition of certain assets of Market Forge Industries, Inc. (“Market Forge”), a leading manufacturer of steam cooking equipment for the commercial foodservice industry, for a purchase price of approximately $7.0 million. During the first quarter of 2014, the company finalized the working capital provision provided for by the purchase agreement resulting in an additional payment to the seller of $0.2 million. Additional deferred payments of $3.0 million in aggregate were paid to the seller during the second and third quarters of 2014. An additional contingent payment of $1.5 million was made in the first quarter of 2015 upon the achievement of certain financial targets.

The final allocation of cash paid for the Market Forge acquisition is summarized as follows (in thousands):

	(as initially reported) Jan 7, 2014	Measurement Period Adjustments	(as adjusted) Jan 7, 2014
Current assets	$2,051	$(100)	$1,951
Property, plant and equipment	120	—	120
Goodwill	5,252	654	5,906
Other intangibles	4,191	—	4,191
Current liabilities	(4,374)	(554)	(4,928)
Consideration paid at closing	$7,240		