MIDDLEBY CORP
Form 10-Q
May 11, 2006

FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

(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 1, 2006

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	**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 ý No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of “accelerated filer and large accelerated filer” in Rule 12b-2 of the Exchange Act.

Large accelerated filer o   Accelerated filer ý   Non-accelerated filer 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 ý

As of May 5, 2006, there were 7,902,275 shares of the registrant's common stock outstanding.

THE MIDDLEBY CORPORATION AND SUBSIDIARIES

QUARTER ENDED APRIL 1, 2006

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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 Amounts)
(Unaudited)

ASSETS	Apr. 1, 2006	Dec. 31, 2005
Current assets:		
Cash and cash equivalents	$ 3,510	$ 3,908
Accounts receivable, net of reserve for doubtful accounts of $3,305 and $3,081	41,312	38,552
Inventories, net	43,260	40,989
Prepaid expenses and other	4,121	4,513
Prepaid taxes	323	3,354
Current deferred taxes	11,342	10,319
Total current assets	103,868	101,635
Property, plant and equipment, net of accumulated depreciation of $34,959 and $34,061a	24,938	25,331
Goodwill	98,757	98,757
Other intangibles	35,196	35,498
Other assets	2,924	2,697
Total assets	$ 265,683	$ 263,918
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 14,405	$ 13,780
Accounts payable	20,809	17,576
Accrued expenses	51,637	62,689
Total current liabilities	86,851	94,045
Long-term debt	106,135	107,815
Long-term deferred tax liability	9,509	8,207
Other non-current liabilities	5,702	5,351
Stockholders' equity:		
Preferred stock, $0.01 par value; nonvoting; 2,000,000 shares authorized; none issued	--	--
Common stock, $0.01 par value; 20,000,000 shares authorized; 11,757,719 and 11,751,219 shares issued in 2006 and 2005, respectively	117	117
Restricted stock	--	(14,204)
Paid-in capital	65,923	79,291
Treasury stock at cost; 3,856,344 shares in 2006 and 2005, respectively	(89,650)	(89,650)
Retained earnings	81,591	73,540
Accumulated other comprehensive loss	(495)	(594)
Total stockholders' equity	57,486	48,500
Total liabilities and stockholders' equity	$ 265,683	$ 263,918

See accompanying notes

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

	Three Months Ended	
	Apr. 1, 2006	Apr. 2, 2005
Net sales	$ 96,749	$ 74,889
Cost of sales	61,225	47,817
Gross profit	35,524	27,072
Selling expenses	10,125	8,184
General and administrative expenses	10,251	6,885
Income from operations	15,148	12,003
Interest expense and deferred financing amortization, net	1,796	1,786
Other (income), net	(93)	(203)
Earnings before income taxes	13,445	10,420
Provision for income taxes	5,394	4,072
Net earnings	$ 8,051	$ 6,348
Net earnings per share:		
Basic	$ 1.06	$ 0.85
Diluted	$ 0.97	$ 0.79
Weighted average number of shares		
Basic	7,618	7,473
Dilutive stock options[1]	650	547
Diluted	8,268	8,020

[1] There were no anti-dilutive stock options 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. 1, 2006	Apr. 2, 2005
Cash flows from operating activities-		
Net earnings	$ 8,051	$ 6,348
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	1,256	929
Deferred taxes	(629)	386
Stock-based compensation costs	1,098	827
Cash effects of changes in -		
Accounts receivable, net	(2,823)	(4,442)
Inventories, net	(2,270)	(3,212)
Prepaid expenses and other assets	3,882	2,251
Accounts payable	3,233	3,590
Accrued expenses and other liabilities	(10,699)	(10,550)
Net cash provided by (used in) operating activities	1,099	(3,873)
Cash flows from investing activities-		
Net additions to property and equipment	(501)	(321)
Acquisition of Nu-Vu	--	(12,000)
Net cash (used in) investing activities	(501)	(12,321)
Cash flows from financing activities-		
Net proceeds under revolving credit facilities	2,350	17,280
(Repayments) under senior secured bank notes	(3,125)	(2,500)
(Repayments) under foreign bank loan	(204)	--
(Repayments) of note agreement	(76)	--
Net proceeds from stock issuances	50	265
Net cash (used in) provided by financing activities	(1,005)	15,045
Effect of exchange rates on cash and cash equivalents	9	(15)
Changes in cash and cash equivalents-		
Net (decrease) in cash and cash equivalents	(398)	(1,164)
Cash and cash equivalents at beginning of year	3,908	3,803
Cash and cash equivalents at end of quarter	$ 3,510	$ 2,639

Supplemental disclosure of cash flow information:				
Interest paid	$	1,598	$	1,362
Income tax payments (refunds)	$	1,873	$	(36)

See accompanying notes

THE MIDDLEBY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

April 1, 2006
(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"), 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 2005 Form 10-K.

In the opinion of management, the financial statements contain all adjustments necessary to present fairly the financial position of the company as of April 1, 2006 and December 31, 2005, and the results of operations for the three months ended April 1, 2006 and April 2, 2005 and cash flows for the three months ended April 1, 2006 and April 2, 2005.

B) Stock-Based Compensation

The company maintains a 1998 Stock Incentive Plan (the "Plan"), as amended on May 11, 2005, under which the company's Board of Directors issues stock grants and stock options to key employees. A maximum amount of 1,750,000 shares can be issued under the plan. As of April 1, 2006, a total of 1,231,160 stock options and 350,000 restricted stock options have been issued under the plan. In addition to shares under the 1998 Stock Incentive Plan, certain directors of the company have outstanding stock options.

Effective January 1, 2006, the company adopted Statement of Financial Accounting Standards ("SFAS") No. 123(R): "Share Based Payments", which requires the recognition of compensation expense associated with stock options and awards based upon their values. The company elected to adopt SFAS No. 123(R) using the modified prospective method. The company had previously disclosed that it would adopt the modified retrospective method. However, upon further review, the modified prospective method was adopted. Under that method, compensation cost recognized in the first quarter of 2006 includes a ratable portion of compensation cost for all share-based payments not yet vested as of January 1, 2006, and a ratable portion of compensation cost for all share-based payments granted subsequent to January 1, 2006, based upon the grant date fair value.

Stock Grants: Stock grants issued are issued under the plan to key employees and are transferable upon certain vesting requirements being met. As of the first quarter ended April 1, 2006, a total of 350,000 restricted stock grants were issued, 280,000 of which were unvested. There were no stock grants issued, forfeited or vested during the three month period ended April 1, 2006. The company recorded compensation expense associated with the restricted stock grants amounting to \$0.9 million for the three month period ending April 1, 2006 and \$0.8 million for the three month period ending April 2, 2005.

Prior to January 1, 2006, the company elected to follow APB Opinion No. 25: "Accounting for Stock Issued to Employees" ("APB No. 25") in accounting for stock-based awards to employees and directors. In accordance with APB No. 25, the company established the value of restricted stock grants based upon the market value of the stock at the time of issuance. The value of the stock grant was amortized and recorded as compensation expense over the applicable vesting period. The adoption of SFAS No. 123(R) did not affect the value assigned to the stock grants or the amount of the reported compensation expense. Under APB No. 25, the value of the restricted stock grant was reflected as a separate component reducing stockholders' equity with an offsetting increase to Paid-in Capital. Accordingly, as of December 31, 2005 the unamortized value of the restricted stock grant amounting to $14.2 million was reflected as a separate component in Stockholders' Equity. As a result of the adoption of SFAS No. 123(R), the unamortized value of the restricted stock grant as of April 1, 2006 in the amount of $13.4 million has been reclassified to Paid-in-Capital.

Stock Options: Stock options issued under the plan provide key employees with rights to purchase shares of common stock at specified exercise prices. Options may be exercised upon certain vesting requirements being met, but expire to the extent unexercised within a maximum of ten years from the date of grant.

As a result of the adoption of SFAS No. 123(R), the company recorded compensation expense of $240,000 for the three month period ended April 1, 2006 associated with the ratable portion stock options granted prior to the adoption date which had not yet vested. Prior to January 1, 2006, in accordance with APB No. 25, the company had not recorded compensation expense related to issued stock options in the financial statements because the exercise price of the stock options was equal to or greater than the market price of the underlying stock on the date of grant. The company’s pro forma net earnings and per share data utilizing a fair value based method for the three month period ended April 2, 2005 prior to the adoption of SFAS 123(R) is as follows (in thousands, except per share data):

		Three Months Ended Apr. 2, 2005
Net income - as reported	$	6,348
Less: Stock-based employee compensation expense, net of taxes		(132)
Net income - pro forma	$	6,216
Earnings per share - as reported:		
Basic	$	0.85
Diluted		0.79
Earnings per share - pro forma:		
Basic	$	0.83
Diluted		0.78

The company has utilized Black-Scholes and binomial option valuation models to estimate the fair value of issued stock options. These option valuation models require the input of highly subjective assumptions, including the expected stock price volatility. Because the company’s options have characteristics significantly different from those of traded options and because changes in the subjective input assumptions can materially affect the fair value estimate, in the opinion of management, the existing models do not necessarily provide a reliable single measure of the fair value of its options.

A summary of stock option activity for the three months ended April 1, 2006 is presented below:

Stock Option Activity	Employees	Directors	Option Price Per Share
Outstanding at December 31, 2005:	736,025	6,000	
Granted	--	--	--
Exercised	(6,500)	--	$5.90 to $10.51
Forfeited	--	--	--
Outstanding at April 1, 2006:	729,525	6,000	
Weighted average price	$ 19.32	$ 10.51	
Exercisable at April 1, 2006:	522,685	6,000	
Weighted average price	$ 17.24	$ 10.51	

The weighted average price of shares exercised during the three months ended April 1, 2006 was $7.67.

The following summarizes the options outstanding and exercisable for the employee stock plan by exercise price, at April 1, 2006:

Exercise Price	Weighted Average Options Outstanding	Weighted Average Remaining Life	Options Exercisable	Remaining Life
Employee plan				
$5.90	188,000	5.91	112,000	5.91
$10.51	70,800	6.93	14,960	6.93
$18.47	370,725	7.56	370,725	7.56
$53.93	100,000	8.91	25,000	8.91
	729,525	7.26	522,685	7.25
Director plan				
$10.51	6,000	1.93	6,000	1.93
	6,000	1.93	6,000	1.93

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2) Purchase Accounting

Nu-Vu

On January 7, 2005, Middleby Marshall Holdings, LLC, a wholly-owned subsidiary of the company, completed its acquisition of the assets of Nu-Vu Foodservice Systems ("Nu-Vu"), a leading manufacturer of baking ovens, from Win-Holt Equipment Corporation ("Win-Holt") for $12.0 million in cash. In September 2005, the company reached final settlement with Win-Holt on post-closing adjustments pertaining to the acquisition of Nu-Vu. As a result, the final purchase price was reduced by $550,000.

The company has accounted for this business combination using the purchase method to record a new cost basis for the assets acquired and liabilities assumed. The difference between the purchase price and the fair value of the assets acquired and liabilities assumed was been recorded as goodwill in the financial statements.

The allocation of cash paid for the Nu-Vu acquisition is summarized as follows (in thousands):

	Jan. 7, 2005	Adjustments	Dec. 31, 2005
Current ssets	$ 2,556	242	$ 2,798
Property, plant and equipment	1,178	--	1,178
Deferred taxes	3,637	(336)	3,301
Goodwill	4,566	252	4,818
Other intangibles	2,188	(875)	1,313
Current liabilities	(2,125)	167	(1,958)
Total cash paid	$ 12,000	$ (550)	$ 11,450

The goodwill and other intangible assets associated with the Nu-Vu acquisition, which are comprised of the tradename, are subject to the non-amortization provisions of SFAS No. 142 and are allocable to the company's Commercial Foodservice Equipment Group for purposes of segment reporting (see footnote 12 for further discussion). Goodwill and other intangible assets associated with this transaction are anticipated to be deductible for income taxes.

Alkar

On December 7, 2005 the company acquired the stock of Alkar Holdings, Inc. ("Alkar") for $26.7 million in cash. Cash paid at closing amounted to $28.2 million and included $1.5 million of estimated working capital adjustments determined at closing. In April 2006, subsequent to the end of the first quarter, the company reached final settlement on post-close working capital adjustments, which resulted in an additional payment of $1.5 million.

The company has accounted for this business combination using the purchase method to record a new cost basis for the assets acquired and liabilities assumed. The difference between the purchase price and the fair value of the assets acquired and liabilities assumed has been recorded as goodwill in the financial statements. The allocation of the purchase price to the assets, liabilities and intangible assets is under review and is subject to change based upon the results of further evaluation.

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

		December 7, 2005
Current assets	$	17,160
Property, plant and equipment		3,032
Goodwill		19,177
Other intangibles		7,960
Current liabilities		(16,003)
Long-term deferred tax liability		(3,131)
Total cash paid	$	28,195

The goodwill and $5.0 million of trademarks included in other intangibles are subject to the nonamortization provisions of SFAS No. 142 from the date of acquisition. Other intangibles also includes $2.1 million allocated to customer relationships, $0.6 million allocated to backlog, and $0.3 million allocated to developed technology which are amortized over periods of 10 years, 7 months, and 14 years respectively. Goodwill and other intangibles of Alkar are allocated to the Industrial Foodservice Equipment Group for segment reporting purposes. These assets are not deductible for tax purposes.

3) Litigation Matters

From time to time, the company is subject to proceedings, lawsuits and other claims related to products, suppliers, employees, customers and competitors. The company maintains insurance to cover product liability, workers compensation, property and casualty, and general liability matters. The company is required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of accrual required, if any, for these contingencies is made after assessment of each matter and the related insurance coverage. The required accrual may change in the future due to new developments or changes in approach such as a change in settlement strategy in dealing with these matters. The company does not believe that any such matter will have a material adverse effect on its financial condition, results of operations or cash flows of the company.

4) New Accounting Pronouncements

In November 2004, the FASB issued SFAS No. 151, "Inventory Costs - an amendment of ARB No. 43, Chapter 4". This statement amends the guidance in ARB No. 43, Chapter 4 to clarify the accounting for abnormal amounts of idle facility expense, freight, handling costs and wasted material. This statement requires that these items be recognized as current period costs and also requires that allocation of fixed production overheads to the costs of conversion be based on the normal capacity of the production facilities. This statement is effective for inventory costs incurred during fiscal years beginning after June 15, 2005. The adoption of this statement did not have a material effect on the company's financial position, results of operations or cash flows.

In May 2005, the FASB issued SFAS No. 154, "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3". This statement replaces ABP Opinion No. 20, Accounting Changes and FASB Statement No. 3, Reporting Changes in Interim Financial Statements and changes the requirements for the accounting for and reporting of a change in accounting principles. This statement applies to all voluntary changes in accounting principles. This statement is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005. The company will apply this guidance prospectively.

In February 2006, the FASB issued SFAS No. 155, "Accounting for Certain Hybrid Financial Instruments - an amendment of FASB Statements No. 133 and 140". This statement provides entities with relief from having to separately determine the fair value of an embedded derivative that would otherwise be required to be bifurcated from its host contract in accordance with SFAS No. 133. This statement allows an entity to make an irrevocable election to measure such a hybrid financial instrument at fair value in its entirety, with changes in fair value recognized in earnings. This statement is effective for all financial instruments acquired, issued, or subject to a remeasurement (new basis) event occurring after the beginning of an entity's first fiscal year that begins after September 15, 2006. The company will apply this guidance prospectively. The company is continuing its process of determining what impact the application of this guidance will have on the company's financial position, results of operations or cash flows.

5) Other Comprehensive Income

The company reports changes in equity during a period, except those resulting from investment by owners and distribution to owners, in accordance with SFAS No. 130, "Reporting Comprehensive Income."

Components of other comprehensive income were as follows (in thousands):

	Three Months Ended	
	Apr. 1, 2006	Apr. 2, 2005
Net earnings	$ 8,051	$ 6,348
Cumulative translation adjustment	(54)	(356)
Minimum pension liability	-	-
Unrealized gain on interest rate swap	152	503
Comprehensive income	$ 8,149	$ 6,495

Accumulated other comprehensive loss is comprised of minimum pension liability of $(1.2) million, net of taxes of $(0.8) million, as of April 1, 2006 and December 31, 2005, foreign currency translation adjustments of $(0.1) million as of April 1, 2006 and December 31, 2005, and an unrealized gain on a interest rate swap of $0.9 million, net of taxes of $0.6 million, as of April 1, 2006 and $0.7 million, net of taxes of $0.5 million as of December 31, 2005.

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