MIDDLEBY CORP
Form 10-Q
November 09, 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 September 30, 2006

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 (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 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 November 3, 2006, there were 7,940,300 shares of the registrant's common stock outstanding.

THE MIDDLEBY CORPORATION AND SUBSIDIARIES

QUARTER ENDED SEPTEMBER 30, 2006

INDEX

DESCRIPTION			PAGE
PART I. FINANCIAL INFORMATION			
	Item 1.	Condensed Consolidated Financial Statements (unaudited)	
		CONDENSED CONSOLIDATED BALANCE SHEETS September 30, 2006 and December 31, 2005	1
		CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS September 30, 2006 and October 1, 2005	2
		CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS September 30, 2006 and October 1, 2005	3
		NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS	4
	Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	21
	Item 3.	Quantitative and Qualitative Disclosures About Market Risk	31
	Item 4.	Controls and Procedures	34
PART II. OTHER INFORMATION			
	Item 1A.	Risk Factors	35
	Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	35
	Item 6.	Exhibits	36

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)

	Sep. 30, 2006	Dec. 31, 2005
ASSETS		
Current assets:		
Cash and cash equivalents	$ 3,025	$ 3,908
Accounts receivable, net of reserve for doubtful accounts of $3,802 and $3,081	52,611	38,552
Inventories, net	46,507	40,989
Prepaid expenses and other	4,673	4,513
Prepaid taxes	--	3,354
Current deferred taxes	10,013	10,319
Total current assets	116,829	101,635
Property, plant and equipment, net of accumulated depreciation of $36,466 and $34,061	28,346	25,331
Goodwill	100,102	98,757
Other intangibles	35,767	35,498
Other assets	2,418	2,697
Total assets	$ 283,462	$ 263,918
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 16,704	$ 13,780
Accounts payable	18,749	17,576
Accrued expenses	67,463	62,689
Total current liabilities	102,916	94,045
Long-term debt	80,525	107,815
Long-term deferred tax liability	10,372	8,207
Other non-current liabilities	6,467	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; 11,794,344 and 11,751,219 shares issued in 2006 and 2005, respectively	117	117
Restricted stock	--	(14,204)
Paid-in capital	68,230	79,291
Treasury stock at cost; 3,855,044 and 3,856,344 shares in 2006 and 2005, respectively	(89,650)	(89,650)
Retained earnings	104,858	73,540

Accumulated other comprehensive loss		(373)		(594)
Total stockholders' equity		83,182		48,500
Total liabilities and stockholders' equity	$	283,462	$	263,918

See accompanying notes

1

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

	Three Months Ended		Nine Months Ended	
	Sep. 30, 2006	Oct. 1, 2005	Sep. 30, 2006	Oct. 1, 2005
Net sales	$ 103,239	$ 80,937	$ 304,837	$ 239,738
Cost of sales	62,664	48,461	187,011	147,604
Gross profit	40,575	32,476	117,826	92,134
Selling expenses	10,009	8,710	30,901	25,663
General and administrative expenses	9,545	7,482	30,477	21,847
Income from operations	21,021	16,284	56,448	44,624
Net interest expense and deferred financing amortization	1,618	1,579	5,445	5,063
Other (income) expense, net	(37)	312	35	47
Earnings before income taxes	19,440	14,393	50,968	39,514
Provision for income taxes	7,263	4,765	19,650	14,569
Net earnings	$ 12,177	$ 9,628	$ 31,318	$ 24,945
Net earnings per share:				
Basic	$ 1.59	$ 1.28	$ 4.11	$ 3.33
Diluted	$ 1.48	$ 1.19	$ 3.79	$ 3.09
Weighted average number of shares				
Basic	7,645	7,516	7,629	7,499
Dilutive stock options[1]	603	594	628	561
Diluted	8,248	8,110	8,257	8,060

[1] There were 3,500 anti-dilutive stock options excluded from common stock equivalents during the three and nine month periods ended September 30, 2006. There were no anti-dilutive stock options in the 2005 comparative periods.

See accompanying notes

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

	Nine Months Ended	
	Sep. 30, 2006	Oct. 1, 2005
Cash flows from operating activities-		
Net earnings	$ 31,318	$ 24,945
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	3,643	2,597
Deferred taxes	249	(1,088)
Stock-based compensation costs	3,416	2,482
Cash effects of changes in -		
Accounts receivable, net	(11,972)	(8,218)
Inventories, net	(3,145)	1,761
Prepaid expenses and other assets	3,186	10,632
Accounts payable	290	1,137
Accrued expenses and other liabilities	6,379	(3,466)
Net cash provided by operating activities	33,364	30,782
Cash flows from investing activities-		
Net additions to property and equipment	(1,236)	(1,085)
Acquisition of Nu-Vu	--	(11,450)
Acquisition of Alkar	(1,500)	--
Acquisition of Houno	(4,939)	--
Net cash (used in) investing activities	(7,675)	(12,535)
Cash flows from financing activities-		
Net (repayments) proceeds under revolving credit facilities	(16,500)	(11,915)
(Repayments) under senior secured bank notes	(9,375)	(7,500)
Net (repayments) under foreign borrowings	--	--
(Repayments) of note agreement	(2,145)	--
Net proceeds from stock issuances	1,284	717
Net cash (used in) financing activities	(26,736)	(18,698)
Effect of exchange rates on cash and cash equivalents	121	(79)
Cash acquired in acquisition	43	--
Changes in cash and cash equivalents-		
Net (decrease) in cash and cash equivalents	(883)	(530)

Cash and cash equivalents at beginning of year		**3,908**		**3,803**
Cash and cash equivalents at end of quarter	**$**	**3,025**	**$**	**3,273**
Supplemental disclosure of cash flow information:				
Interest paid	**$**	**4,898**	**$**	**4,530**
Income tax payments	**$**	**8,557**	**$**	**4,535**

See accompanying notes

THE MIDDLEBY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 30, 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 September 30, 2006 and December 31, 2005, and the results of operations for the three and nine months ended September 30, 2006 and October 1, 2005 and cash flows for the nine months ended September 30, 2006 and October 1, 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 September 30, 2006, a total of 1,231,160 stock options and 350,000 restricted stock grants have been issued under the Plan. In addition to shares under the 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 third quarter and first nine months 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 third quarter ended September 30, 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 September 30, 2006. The company recorded compensation expense associated with the restricted stock grants amounting to $0.9 million and $2.6 million for the three months and nine months ended September 30, 2006, respectively and $0.8 million and $2.5 million for the three months and nine months ended end October 1, 2005, respectively.

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 was reflected as a separate component in Stockholders' Equity. Upon adoption of SFAS No. 123(R), the company has reclassified $11.6 million related to the unamortized restricted stock grant 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 $238,000 and $843,000, respectively, for the three month and nine month periods ended September 30, 2006 associated with the ratable portion of the 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 and nine month periods ended October 1, 2005 prior to the adoption of SFAS 123(R) is as follows (in thousands, except per share data):

	Three Months Ended Oct. 1, 2005	Nine Months Ended Oct. 1, 2005
Net income - as reported	9,628	$ 24,945
Less: Stock-based employee compensation expense, net of taxes	(184)	(500)
Net income - pro forma	$ 9,444	$ 24,445
Earnings per share - as reported:		
Basic	$ 1.28	$ 3.33
Diluted	1.19	3.09
Earnings per share - pro forma:		
Basic	$ 1.26	$ 3.26
Diluted	1.16	3.03

The company has utilized Black-Scholes and binomial option valuation models to estimate the fair value of issued stock options. During the second quarter of 2006, 3,500 stock options were issued to company directors at an exercise price of $88.43 per share. The fair value of these options was estimated using the Black-Scholes valuation model utilizing the following assumptions: volatility 40%; interest rate 5.03%; and expected life of 4.6 years. The Black-Scholes and binomial 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 nine months ended September 30, 2006 is presented below:

Stock Option Activity	Employees	Directors	Option Price Per Share
Outstanding at December 31, 2005:	736,025	6,000	
Granted	--	3,500	$ 88.43
Exercised	(40,125)	(3,000)	$5.90 to $18.47
Forfeited	--	--	
Outstanding at September 30, 2006:	695,900	6,500	
Weighted average price	$ 19.44	$ 52.47	
Exercisable at September 30, 2006:	556,140	6,500	
Weighted average price	$ 16.14	$ 52.47	

The weighted average price of shares exercised during the nine months ended September 30, 2006 was $14.96.

The following summarizes the options outstanding and exercisable for the employee and director stock plans by exercise price, at September 30, 2006:

Exercise Price	Options Outstanding	Weighted Average Remaining Life	Options Exercisable	Weighted Average Remaining Life
Employee plan				
$5.90	184,000	5.41	147,200	5.41
$10.51	69,900		41,940	6.43
$18.47	342,000	7.07	342,000	7.07
$53.93	100,000	8.42	25,000	8.42
	695,900	6.76	556,140	6.64
Director plan				
$10.51	3,000	1.43	3,000	1.43
$88.43	3,500	9.62	3,500	9.62
	6,500	5.84	6,500	5.84

7

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 assets	$ 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, “Goodwill and Other Intangible Assets”, 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 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, 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):

	Dec. 7, 2005	Adjustments	Sep. 30, 2006
Current assets	$ 17,160	$ (75)	$ 17,085
Property, plant and equipment	3,032	--	3,032
Goodwill	19,177	75	19,252
Other intangibles	7,960	--	7,960
Current liabilities	(16,003)	1,500	(14,503)
Long-term deferred tax liability	(3,131)	--	(3,131)
Total cash paid	$ 28,195	$ 1,500	$ 29,695

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.

Houno

On August 31, 2006, the company acquired the stock of Houno A/S ("Houno") located in Denmark for $4.9 million in cash. The company also assumed $3.7 million of debt included as part of the net assets of Houno.

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 Houno acquisition is summarized as follows (in thousands):

	Aug. 31, 2006
Current assets	$ 4,325
Property, plant and equipment	4,371
Goodwill	1,287
Other intangibles	1,139
Other assets	15
Current liabilities	(3,061)
Long-term debt	(2,858)
Long-term deferred tax liability	(356)
Other comprehensive income	77
Total cash paid	$ 4,939

The goodwill is subject to the nonamortization provisions of SFAS No. 142 from the date of acquisition. Other intangibles also includes $0.1 million allocated to backlog and $1.0 million allocated to developed technology which are amortized over periods of 1 month and 5 years, respectively. Goodwill and other intangibles of Houno are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are not deductible for tax purposes.

9

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.

In July 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes.” This interpretation requires that a recorded tax benefit must be more likely than not of being sustained upon examination by tax authorities based upon its technical merits. The amount of benefit recorded is the largest amount of benefit that is greater than 50 percent likely of being realized upon ultimate settlement. Upon adoption, any adjustment will be recorded directly to beginning retained earnings. The interpretation is effective for fiscal years beginning after December 15, 2006. The company has not yet determined what impact the application of the interpretation will have on the company’s financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 157, “Fair Value Measurements”. This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement does not require any new fair value measurements. This statement is effective for interim reporting periods in fiscal years beginning after November 15, 2007. The company will apply this guidance prospectively.

In September 2006, the FASB issued SFAS No. 158, “Employers’ Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)”. This statement improves financial reporting by requiring an employer to recognize the overfunded or underfunded status of a defined benefit postretirement plan as an asset of liability in its statement of financial position and to recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity. This statement also improves financial reporting by requiring an employer to measure the funded status of a plan as of the date of its year-end statement of financial position, with limited exceptions. Employers with publicly traded equity securities are required to initially recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. The company has not yet determined what impact the application of the interpretation will have on the company’s financial position.

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		Nine Months Ended	
	Sep. 30, 2006	Oct. 1, 2005	Sep. 30, 2006	Oct. 1, 2005
Net earnings	$ 12,177	$ 9,628	$ 31,318	$ 24,945
Cumulative translation adjustment	90	72	354	(611)
Unrealized gain (loss) on interest rate swap	(344)	318	(134)	590
Comprehensive income	$ 11,923	$ 10,018	$ 31,538	$ 24,924

Accumulated other comprehensive loss is comprised of minimum pension liability of $(1.2) million, net of taxes of $(0.8) million, as of September 30, 2006 and December 31, 2005, foreign currency translation adjustments of $0.3 million as of September 30, 2006 and $(0.1) million as of December 31, 2005, and an unrealized gain on a interest rate swap of $0.6 million, net of taxes of $0.4 million, as of September 30, 2006 and $0.7 million, net of taxes of $0.5 million as of December 31, 2005.

6) Inventories

Inventories are composed of material, labor and overhead and are stated at the lower of cost or market. Costs for inventory at two of the company's manufacturing facilities have been determined using the last-in, first-out ("LIFO") method. These inventories under the LIFO method amounted to $14.2 million at September 30, 2006 and $15.4 million at December 31, 2005 and represented approximately 31% and 38% of the total inventory in each respective period. Costs for all other inventory have been determined using the first-in, first-out ("FIFO") method. The company estimates reserves for inventory obsolescence and shrinkage based on its judgment of future realization. Inventories at September 30, 2006 and December 31, 2005 are as follows:

	Sep. 30, 2006	Dec. 31, 2005
	(in thousands)	
Raw materials and parts	$ 15,582	$ 11,311
Work-in-process	6,676	6,792
Finished goods	24,749	22,654
	47,007	40,757
LIFO adjustment	(500)	232
	$ 46,507	$ 40,989

7) Accrued Expenses

Accrued expenses consist of the following:

	Sep. 30, 2006	Dec, 31, 2005
	(in thousands)	
Accrued payroll and related expenses	$ 15,944	$ 15,577
Accrued warranty	11,865	11,286
Accrued customer rebates	10,552	10,740
Accrued income taxes	5,512	1,499
Accrued product liability and workers comp	4,176	2,418
Advanced customer deposits	3,203	6,204
Other accrued expenses	16,211	14,965
	$ 67,463	$ 62,689

8) Warranty Costs

In the normal course of business the company issues product warranties for specific product lines and provides for the estimated future warranty cost in the period in which the sale is recorded. The estimate of warranty cost is based on contract terms and historical warranty loss experience that is periodically adjusted for recent actual experience. Because warranty estimates are forecasts that are based on the best available information, claims costs may differ from amounts provided. Adjustments to initial obligations for warranties are made as changes in the obligations become reasonably estimable.

A rollforward of the warranty reserve is as follows:

	Nine Months Ended Sep. 30, 2006 (in thousands)
Beginning balance	$ 11,286
Warranty expense	7,037
Warranty claims	(6,458)
Ending balance	$ 11,865

9) Financing Arrangements

	Sep. 30, 2006	Dec. 31, 2005
	(in thousands)	
Senior secured revolving credit line	$ 39,750	$ 56,250
Senior secured bank term loans	50,625	60,000
Foreign borrowings	6,854	3,200
Other note	--	2,145
Total debt	$ 97,229	$ 121,595
Less: Current maturities of long-term debt	16,704	13,780
Long-term debt	$ 80,525	$ 107,815

During the fourth quarter of 2005, the company amended its senior secured credit facility. Terms of the agreement provided for $60.0 million of term loans and $130.0 million of availability under a revolving credit line. As of September 30, 2006, the company had $90.4 million outstanding under its senior banking facility, including $50.6 million of unamortized term loans and $39.8 million of borrowings under the revolving credit line. The company also had $6.4 million in outstanding letters of credit, which reduced the borrowing availability under the revolving credit line.

Borrowings under the senior secured credit facility are assessed at an interest rate of 1.00% above LIBOR for long-term borrowings or at the higher of the Prime rate and the Federal Funds Rate for short term borrowings. At September 30, 2006, the average interest rate on the senior debt amounted to 6.43%. The interest rates on borrowings under the senior bank facility may be adjusted quarterly based on the company's defined indebtedness ratio on a rolling four-quarter basis. Additionally, a commitment fee, based upon the indebtedness ratio is charged on the unused portion of the revolving credit line. This variable commitment fee amounted to 0.20% as of September 30, 2006.

In December 2005, the company entered into a U.S. dollar secured term loan at its subsidiary in Spain. This term loan amortizes in equal monthly installments over a four-year period ending December 31, 2009. The unamortized balance under this loan amounted to $2.6 million at September 30, 2006. Borrowings under this facility are assessed at an interest rate of 0.45% above LIBOR. At September 30, 2006, the interest rate on this loan was 5.79%.

In June 2006, the company entered into a U.S. dollar secured promissory note at its subsidiary in Mexico. This promissory note amortizes in equal monthly installments over a one-year period. The unamortized balance under this loan amounted to $0.3 million at September 30, 2006. Borrowings under this facility are assessed at an interest rate of 10.55%.

In conjunction with the acquisition of Houno, the company assumed $3.7 million of outstanding debt obligations included as part of the net assets acquired. As of September 30, 2006 the amount of debt associated with Houno amounted to $4.0 million and included $1.1 million of borrowings on a revolving credit facility with an average interest rate of 5.54%, $0.9 million of borrowings under term loan facilities with an average interest rate of 5.52%, and $2.0 million of mortgage notes with an average interest rate of 6.97%.

The company has historically entered into interest rate swap agreements to effectively fix the interest rate on its outstanding debt. In January 2005, the company entered into an interest rate swap agreement for a notional amount of $70.0 million. This agreement swaps one-month LIBOR for a fixed rate of 3.78%. The notional amount amortizes consistent with the repayment schedule of the company's term loan maturing November 2009. The unamortized notional amount of this swap as of September 30, 2006 was $50.6 million. In January 2006, the company entered into an interest rate swap agreement for a notional amount of $10.0 million maturing on December 21, 2009. This agreement swaps one-month LIBOR for a fixed rate of 5.03%. In August 2006, in conjunction with the Houno acquisition, the company assumed an interest rate swap with a notional amount of $1.2 million maturing on December 31, 2018. This agreement swaps one-month LIBOR for a fixed rate of 4.84%.

In 2004, the company entered into a promissory note in conjunction with the release and early termination of obligations under a lease agreement relative to a manufacturing facility in Shelburne, Vermont. Under terms of the agreement, the company fully retired this note in September 2006.

The terms of the senior secured credit facility limit the paying of dividends, capital expenditures and leases, and require, among other things, certain ratios of indebtedness and fixed charge coverage. The credit agreement also provides that if a material adverse change in the company’s business operations or conditions occurs, the lender could declare an event of default. Under terms of the agreement a material adverse effect is defined as (a) a material adverse change in, or a material adverse effect upon, the operations, business properties, condition (financial and otherwise) or prospects of the company and its subsidiaries taken as a whole; (b) a material impairment of the ability of the company to perform under the loan agreements and to avoid any event of default; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against the company of any loan document. A material adverse effect is determined on a subjective basis by the company's creditors. At September 30, 2006, the company was in compliance with all covenants pursuant to its borrowing agreements.

10) Acquisition Integration

The company established reserves through purchase accounting associated with facility exit costs related to the Blodgett business operations acquired on December 21, 2001. Reserves for facility closure costs predominately relate to a lease obligation for a manufacturing facility that was exited during the second quarter of 2001, prior to the acquisition, for lease obligations associated with a manufacturing facility in Quakertown, Pennsylvania that was exited when production at this facility was relocated to another facility in Bow, New Hampshire. The lease associated with the exited facility extends through April 2015. The facility is currently subleased. The remaining reserve balance is reflected net of anticipated sublease income.

The forecast of sublease income could differ from actual amounts, which are subject to the occupancy by a subtenant and a negotiated sublease rental rate. If the company's estimates or underlying assumptions change in the future, the company would be required to adjust the reserve amount accordingly.

At this time, management believes the remaining reserve balance is adequate to cover the remaining costs identified at September 30, 2006. A summary of the reserve balance activity related to the facility closure and lease obligation is as follows:

	Nine Months Ended Sep. 30, 2006 (in thousands)	
Beginning balance	$	2,598
Cash payments		100
Ending balance	$	2,498

11) Financial Instruments

In June 1998, the FASB issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities". SFAS No. 133, as amended, establishes accounting and reporting standards for derivative instruments. The statement requires an entity to recognize all derivatives as either assets or liabilities and measure those instruments at fair value. Derivatives that do not qualify as a hedge must be adjusted to fair value in earnings. If the derivative does qualify as a hedge under SFAS No. 133, changes in the fair value will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments or recognized in other accumulated comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a hedge's change in fair value will be immediately recognized in earnings.

Foreign Exchange: The company has entered into derivative instruments, principally forward contracts to reduce exposures pertaining to fluctuations in foreign exchange rates. As of September 30, 2006, the company had forward contracts to purchase $8.6 million U.S. Dollars with various foreign currencies, all of which mature in the next fiscal quarter. The fair value of these forward contracts was less than $0.1 million at the end of the quarter.

Interest Rate: In January 2005, the company entered into an interest rate swap with a notional amount of $70.0 million to fix the interest rate applicable to certain of its variable-rate debt. The notional amount of the swap amortizes consistent with the repayment schedule of the company's senior term loan maturing in November 2009. As of September 30, 2006, the unamortized balance of the interest rate swap was $50.6 million. The agreement swaps one-month LIBOR for a fixed rate of 3.78% and is in effect through November 2009. The company designated the swap as a cash flow hedge at its inception and all changes in the fair value of the swap are recognized in accumulated other comprehensive income. As of September 30, 2006, the fair value of this instrument was $1.1 million. The change in fair value of this swap agreement in the first nine months of 2006 was a loss of $120,000, net of taxes of $48,000.

In January 2006, the company entered into another interest rate swap with a notional amount of $10.0 million to fix the interest rate applicable to certain of its variable-rate debt. The agreement swaps one-month LIBOR for a fixed rate of 5.03% and is in effect through December 2009. The company designated the swap a cash flow hedge at its inception and all changes in fair value of the swap are recognized in accumulated other comprehensive income. As of September 30, 2006, the fair value of this instrument was $22,000. The change in fair value of this swap agreement in the first nine months of 2006 was a gain of $13,000, net of taxes of $9,000.

In August 2006, in conjunction with the Houno acquisition, the company assumed an interest rate swap with a notional amount of $1.2 million. The agreement swaps one-month LIBOR for a fixed rate of 4.84% and is in effect through December 31, 2018. The company has not designated the swap a cash flow hedge. Therefore, all changes in fair value of the swap are recognized in net earnings. The fair value of this swap agreement as of September 30, 2006 was $(75,000), net of taxes of $19,000.

12) Segment Information

The company operates in three reportable operating segments defined by management reporting structure and operating activities.

The Commercial Foodservice Equipment business group manufactures cooking equipment for the restaurant and institutional kitchen industry. This business division has manufacturing facilities in Illinois, Michigan, New Hampshire, North Carolina, Vermont, the Philippines and Denmark. This division supports four major product groups, including conveyor oven equipment, core cooking equipment, counterline cooking equipment, and international specialty equipment. Principal product lines of the conveyor oven product group include Middleby Marshall ovens, Blodgett ovens and CTX ovens. Principal product lines of the core cooking equipment product group include the Blodgett product line of ranges, convection ovens and combi ovens, Houno combi ovens, MagiKitch'n charbroilers and catering equipment, Nu-Vu baking ovens and proofing equipment, the Pitco Frialator product line of fryers and the Southbend product line of ranges, steamers, convection ovens, broilers and steam cooking equipment,. The counterline cooking and warming equipment product group includes toasters, hot food servers, foodwarmers and griddles distributed under the Toastmaster brand name. The international specialty equipment product group is primarily comprised of food preparation tables, undercounter refrigeration systems, ventilation systems and component parts for the U.S. manufacturing operations.

The Industrial Foodservice Equipment business group manufactures cooking and packaging equipment for the food processing industry. This business division has a manufacturing facility in Wisconsin. Its principal products include batch ovens, conveyorized ovens and continuous process ovens sold under the Alkar brand name and food packaging machinery sold under the RapidPak brand name.

The International Distribution Division provides integrated sales, export management, distribution and installation services through its operations in Canada, China, India, South Korea, Mexico, the Philippines, Spain, Taiwan and the United Kingdom. The division sells the company's product lines and certain non-competing complementary product lines throughout the world. For a local country distributor or dealer, the company is able to provide a centralized source of foodservice equipment with complete export management and product support services.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The chief decision maker evaluates individual segment performance based on operating income. Management believes that intersegment sales are made at established arms-length transfer prices.

Net Sales Summary
(dollars in thousands)

	Three Months Ended				Nine Months Ended			
	Sep. 30, 2006		Oct. 1, 2005		Sep. 30, 2006		Oct. 1, 2005	
	Sales	Percent	Sales	Percent	Sales	Percent	Sales	Percent
Business Divisions:								
Commercial Foodservice:								
Core cooking equipment (1)	$ 62,364	60.4	$ 57,192	70.7	$ 186,268	61.1	$ 172,050	71.8
Conveyor oven equipment	15,911	15.4	13,755	17.0	45,963	15.1	41,124	17.1
Counterline cooking equipment	2,330	2.2	3,036	3.8	8,131	2.7	9,377	3.9
International specialty equipment	2,024	2.0	1,898	2.3	7,311	2.4	6,769	2.8
Commercial Foodservice	82,629	80.0	75,881	93.8	247,673	81.3	229,320	96.6
Industrial Foodservice(2)	15,389	14.9	--	--	43,909	14.4	--	--
International Distribution Division (3)	14,023	13.6	14,764	18.2	41,602	13.6	40,476	16.9
Intercompany sales (4)	(8,802)	(8.5)	(9,708)	(12.0)	(28,347)	(9.3)	(30,058)	(12.5)
Total	$ 103,239	100.0%	$ 80,937	100.0%	$ 304,837	100.0%	$ 239,738	100.0%

(1) Includes sales of products manufactured by Houno, which was acquired in September 2006.

(2) Represents sales of products manufactured by Alkar, which was acquired in December 2005.

(3) Consists of sales of products manufactured by Middleby and products manufactured by third parties.

(4) Represents the elimination of sales amongst the Commercial Foodservice Equipment Group and from the Commercial Foodservice Equipment Group to the International Distribution Division.

The following table summarizes the results of operations for the company's business segments[1](in thousands):

	Commercial Foodservice[2]	Industrial Foodservice[3]	International Distribution	Corporate and Other[4]	Eliminations[5]	Total
Three months ended September 30, 2006						
Net sales	$ 82,629	$ 15,389	$ 14,023	$ --	$ (8,802)	$ 103,239
Operating income	22,032	3,302	694	(5,150)	143	21,021
Depreciation expense	657	132	63	32	--	