

MIDDLEBY CORP  
Form 10-Q  
August 07, 2008

**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 June 28, 2008**

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 is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition 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 August 1, 2008, there were 16,998,785 shares of the registrant's common stock outstanding.



**THE MIDDLEBY CORPORATION AND SUBSIDIARIES****QUARTER ENDED JUNE 28, 2008**

| <u>DESCRIPTION</u>                   | <u>INDEX</u>  | <u>PAGE</u> |
|--------------------------------------|---|-------------|
| <b>PART I. FINANCIAL INFORMATION</b> |   |             |
| Item 1.                              | Condensed Consolidated Financial Statements (unaudited)                                     |             |
|                                      | CONDENSED CONSOLIDATED BALANCE SHEETS<br>June 28, 2008 and December 29, 2007                | 1           |
|                                      | CONDENSED CONSOLIDATED STATEMENTS OF<br>EARNINGS<br>June 28, 2008 and June 30, 2007         | 2           |
|                                      | CONDENSED CONSOLIDATED STATEMENTS OF<br>CASH FLOWS<br>June 28, 2008 and June 30, 2007       | 3           |
|                                      | NOTES TO CONDENSED CONSOLIDATED<br>FINANCIAL STATEMENTS                                     | 4           |
| Item 2.                              | Management's Discussion and Analysis of Financial<br>Condition<br>and Results of Operations | 23          |
| Item 3.                              | Quantitative and Qualitative Disclosures About Market<br>Risk                               | 33          |
| Item 4.                              | Controls and Procedures   | 36          |
| <b>PART II. OTHER INFORMATION</b>    |   |             |
| Item 1A.                             | Risk Factors  | 37          |
| Item 2.                              | Unregistered Sales of Equity Securities and Use of<br>Proceeds                              | 37          |
| Item 6.                              | Exhibits  | 37          |

**PART I. FINANCIAL INFORMATION****Item 1. Condensed Consolidated Financial Statements**

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

| <b><u>ASSETS</u></b>  | Jun. 28, 2008 | Dec. 29, 2007 |
|---|---------------|---------------|
| <b>Current assets:</b>  |               |               |
| Cash and cash equivalents   | \$ 7,049      | \$ 7,463      |
| Accounts receivable, net of reserve for doubtful accounts of \$7,427 and \$5,818  | 102,783       | 73,090        |
| Inventories, net  | 91,574        | 66,438        |
| Prepaid expenses and other  | 9,804         | 10,341        |
| Prepaid taxes   | 6,303         | 17,986        |
| Current deferred taxes  | 14,614        | 11,095        |
| Total current assets  | 232,127       | 186,413       |
| Property, plant and equipment, net of accumulated depreciation of \$43,829 and \$41,114   |               |               |
|   | 46,208        | 36,774        |
| Goodwill  | 247,929       | 134,800       |
| Other intangibles   | 127,438       | 52,581        |
| Other assets  | 3,041         | 3,079         |
| Total assets  | \$ 656,743    | \$ 413,647    |
| <b><u>LIABILITIES AND STOCKHOLDERS' EQUITY</u></b>  |               |               |
| <b>Current liabilities:</b>   |               |               |
| Current maturities of long-term debt  | \$ 8,705      | \$ 2,683      |
| Accounts payable  | 42,868        | 26,576        |
| Accrued expenses  | 92,772        | 95,581        |
| Total current liabilities   | 144,345       | 124,840       |
| Long-term debt  | 265,868       | 93,514        |
| Long-term deferred tax liability  | 24,777        | 2,568         |
| Other non-current liabilities   | 22,617        | 9,813         |
| <b>Stockholders' equity:</b>  |               |               |
| Preferred stock, \$0.01 par value; nonvoting; 2,000,000 shares authorized; none issued  | --            | --            |
| Common stock, \$0.005 par value; 47,500,000 shares authorized; 21,008,936 and 20,732,836 shares issued in 2008 and 2007, respectively | 120           | 120           |
| Paid-in capital   | 101,861       | 104,782       |
| Treasury stock at cost; 4,069,913 and 3,855,044 shares in 2008 and 2007, respectively   | (102,000)     | (89,641)      |
| Retained earnings   | 197,194       | 166,896       |
| Accumulated other comprehensive income  | 1,961         | 755           |
| Total stockholders' equity  | 199,136       | 182,912       |
| Total liabilities and stockholders' equity  | \$ 656,743    | \$ 413,647    |

See accompanying notes

**THE MIDDLEBY CORPORATION AND SUBSIDIARIES**  
**CONDENSED CONSOLIDATED STATEMENTS OF EARNINGS**

(In Thousands, Except Per Share Data)

(Unaudited)

|  | Three Months Ended |               | Six Months Ended |               |
|--|--------------------|---------------|------------------|---------------|
|  | Jun. 28, 2008      | Jun. 30, 2007 | Jun. 28, 2008    | Jun. 30, 2007 |
| Net sales  | \$ 173,513         | \$ 113,248    | \$ 334,396       | \$ 218,943    |
| Cost of sales  | 106,505            | 68,362        | 208,486          | 132,952       |
| Gross profit   | 67,008             | 44,886        | 125,910          | 85,991        |
| Selling expenses   | 16,676             | 11,952        | 32,921           | 23,068        |
| General and administrative expenses                      | 17,840             | 11,732        | 34,481           | 22,915        |
| Income from operations                                   | 32,492             | 21,202        | 58,508           | 40,008        |
| Net interest expense and deferred financing amortization | 3,039              | 1,273         | 6,742            | 2,517         |
| Other expense (income), net                              | 561                | (630)         | 948              | (737)         |
| Earnings before income taxes                             | 28,892             | 20,559        | 50,818           | 38,228        |
| Provision for income taxes                               | 11,775             | 7,977         | 20,520           | 14,926        |
| Net earnings   | \$ 17,117          | \$ 12,582     | \$ 30,298        | \$ 23,302     |
| <b>Net earnings per share:</b>                           |                    |               |                  |               |
| Basic  | \$ 1.07            | \$ 0.80       | \$ 1.89          | \$ 1.50       |
| Diluted  | \$ 0.99            | \$ 0.75       | \$ 1.76          | \$ 1.39       |
| <b>Weighted average number of shares</b>                 |                    |               |                  |               |
| Basic  | 15,990             | 15,641        | 16,022           | 15,576        |
| Dilutive stock options <sup>1</sup>                      | 1,254              | 1,234         | 1,184            | 1,232         |
| Diluted  | 17,244             | 16,875        | 17,206           | 16,808        |

<sup>1</sup> 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)

|  | Six Months Ended |                 |
|--|------------------|-----------------|
|  | Jun. 28, 2008    | Jun. 30, 2007   |
| <b>Cash flows from operating activities-</b>   |                  |                 |
| Net earnings   | \$ 30,298        | \$ 23,302       |
| <b>Adjustments to reconcile net earnings to cash provided by operating activities:</b> |                  |                 |
| Depreciation and amortization  | 6,862            | 2,747           |
| Deferred taxes   | 2,551            | 32              |
| Non-cash share-based compensation  | 5,480            | 3,261           |
| Unrealized loss on derivative financial instruments                                    | 193              | --              |
| <b>Changes in assets and liabilities, net of acquisitions</b>                          |                  |                 |
| Accounts receivable, net   | (9,250)          | 1,489           |
| Inventories, net   | (2,329)          | (2,771)         |
| Prepaid expenses and other assets  | 17,275           | 1,529           |
| Accounts payable   | 5,621            | 1,019           |
| Accrued expenses and other liabilities   | (13,665)         | (8,201)         |
| <b>Net cash provided by operating activities</b>                                       | <b>43,033</b>    | <b>22,407</b>   |
| <b>Cash flows from investing activities-</b>   |                  |                 |
| Net additions to property and equipment  | (2,743)          | (1,069)         |
| Acquisition of Jade  | --               | (7,391)         |
| Acquisition of Carter-Hoffmann   | --               | (15,928)        |
| Acquisition of Star  | (188,241)        | --              |
| Acquisition of Giga  | (9,918)          | --              |
| Acquisition of Frifri  | (3,050)          | --              |
| <b>Net cash (used in) investing activities</b>   | <b>(203,948)</b> | <b>(24,388)</b> |
| <b>Cash flows from financing activities-</b>   |                  |                 |
| Net proceeds under revolving credit facilities   | 172,249          | 10,900          |
| Repayments under senior secured bank notes   | --               | (7,500)         |
| Net proceeds (payments) under foreign bank loan  | 668              | (904)           |
| Debt issuance costs  | (205)            | --              |
| Purchase of treasury stock   | (12,359)         | --              |
| Net proceeds from stock issuances  | 51               | 1,687           |
| <b>Net cash provided by financing activities</b>                                       | <b>160,404</b>   | <b>4,183</b>    |
| <b>Effect of exchange rates on cash and cash equivalents</b>                           | <b>97</b>        | <b>55</b>       |

| <b>Changes in cash and cash equivalents-</b>                |           |              |                  |
|---|-----------|--------------|------------------|
| <b>Net (decrease) increase in cash and cash equivalents</b> |           | <b>(414)</b> | <b>2,257</b>     |
| <b>Cash and cash equivalents at beginning of year</b>       |           | <b>7,463</b> | <b>3,534</b>     |
| <b>Cash and cash equivalents at end of quarter</b>          | <b>\$</b> | <b>7,049</b> | <b>\$ 5,791</b>  |
| <b>Supplemental disclosure of cash flow information:</b>    |           |              |                  |
| <b>Interest paid</b>  | <b>\$</b> | <b>5,821</b> | <b>\$ 2,518</b>  |
| <b>Income tax payments</b>                                  | <b>\$</b> | <b>5,860</b> | <b>\$ 13,449</b> |

See accompanying notes



**THE MIDDLEBY CORPORATION AND SUBSIDIARIES**

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**

**June 28, 2008**

**(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 2007 Form 10-K/A.

In the opinion of management, the financial statements contain all adjustments necessary to present fairly the financial position of the company as of June 28, 2008 and December 29, 2007, and the results of operations for the three and six months ended June 28, 2008 and June 30, 2007 and cash flows for the six months ended June 28, 2008 and June 30, 2007.

Subsequent to the issuance of the company's condensed consolidated financial statements for the fiscal period ended March 29, 2008, the company determined that purchase accounting methodology had been improperly applied as it related to the calculation of deferred tax assets and liabilities for certain acquisitions, including Nu-Vu Foodservice Systems, Jade Products Company, Carter-Hoffman, MP Equipment, and Wells Bloomfield. Specifically, in each of these acquisitions, the company allocated a portion of the purchase price to deferred tax assets to reflect the expected tax benefit to be realized from the future amortization of goodwill deductible for tax purposes. This restatement had no impact on the company's condensed consolidated statements of earnings or cash flows for the three month period ended March 29, 2008.

**B) 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. Share-based compensation expense was \$3.1 million and \$1.9 million for the second quarter of 2008 and 2007, respectively. Share-based compensation expense was \$5.5 million and \$3.3 million for the six month periods ended June 28, 2008 and June 30, 2007, respectively.

### C) Income Tax Contingencies

In July 2006, the Financial Accounting Standards Board, (“FASB”) issued Interpretation No. 48 “Accounting for Uncertainty in Income Taxes” (“FIN 48”). This interpretation prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN 48 states that a tax benefit from an uncertain tax position may be recognized only if it is “more likely than not” that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with a taxing authority having full knowledge of all relevant information. A tax benefit from an uncertain position was previously recognized if it was probable of being sustained. Under FIN 48, the liability for unrecognized tax benefits is classified as non-current unless the liability is expected to be settled in cash within 12 months of the reporting date. FIN 48 is effective as of the beginning of the first fiscal year beginning after December 15, 2006. The company adopted the provisions of FIN 48 on the first day of fiscal 2007 as required.

As of December 29, 2007, the total amount of liability for unrecognized tax benefits related to federal, state and foreign taxes was approximately \$7.7 million plus approximately \$1.0 million of accrued interest and \$1.3 million of penalties. As of June 28, 2008, the corresponding balance of liability for unrecognized tax benefits was approximately \$8.3 million plus approximately \$1.3 million of accrued interest and \$1.3 million of penalties. The company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense, which is consistent with reporting in prior periods.

During the second quarter of 2008 the U.S. Internal Revenue Service completed an audit of the the company’s 2005 and 2006 federal income tax returns. Results of these audits have been considered in the company’s evaluation of the reserve requirements under FIN 48. The company does not anticipate that total unrecognized tax benefits will significantly change due to any settlement of audits and the expiration of statute of limitations within the next twelve months.

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:

|                         |             |
|-------------------------|-------------|
| United States - federal | 2007        |
| United States - states  | 2001 - 2007 |
| China                   | 2006 - 2007 |
| Denmark                 | 2006 - 2007 |
| Mexico                  | 2006 - 2007 |
| Philippines             | 2004 - 2007 |
| South Korea             | 2004 - 2007 |
| Spain                   | 2005 - 2007 |
| Taiwan                  | 2005 - 2007 |
| United Kingdom          | 2006 - 2007 |

**D) Fair Value Measures**

In September 2006, the FASB issued Statement of Financial Accounting Standards (“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 disclosure about fair value measurements. This statement is effective for interim reporting periods in fiscal years beginning after November 15, 2007. The company adopted SFAS No. 157 on December 30, 2007 (first day of fiscal year 2008).

FASB Staff Position No. FAS 157-2, “Effective Date of FASB Statement No. 157” delays the effective date of the application of SFAS No. 157 to fiscal years beginning after November 15, 2008 for all nonfinancial assets and nonfinancial liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. The company adopted SFAS No. 157 with the exception of the application of the statement to non-recurring nonfinancial assets and liabilities. Non-recurring nonfinancial assets and nonfinancial liabilities for which the company has not applied the provisions of SFAS No. 157 primarily include those measured at fair value in goodwill and long-lived asset impairment testing, those initially measured at fair value in a business combination, and nonfinancial liabilities for exit or disposal activities.

SFAS No. 157 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. SFAS No. 157 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 that are measured at fair value on a recurring basis are categorized using the fair value hierarchy at June 28, 2008 are as follows (in thousands):

|                               | Fair Value<br>Level 1 | Fair Value<br>Level 2 | Fair Value<br>Level 3 | Total |
|-------------------------------|-----------------------|-----------------------|-----------------------|-------|
| <b>Financial Assets:</b>      |                       |                       |                       |       |
| None                          | --                    | --                    | --                    | --    |
| <b>Financial Liabilities:</b> |                       |                       |                       |       |
| Interest rate swaps           | --                    | 69                    | --                    | 69    |

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is effective for fiscal years beginning after November 15, 2007. The adoption of SFAS No. 159 did not have a material impact on the financial statements. Upon adoption, the company has elected to not apply SFAS No. 159 to measure selected financial instruments and certain other items; therefore, there was no impact to the financial statements upon adoption. Subsequent to the initial adoption of SFAS No. 159, the company has not made any elections during the three and six months ended June 28, 2008.

## 2) **Acquisitions and Purchase Accounting**

### Jade

On April 1, 2007, the company completed its acquisition of the assets and operations of Jade Products Company ("Jade"), a leading manufacturer of commercial and residential cooking equipment from Maytag Corporation ("Maytag") for an aggregate purchase price of \$7.4 million in cash plus transaction expenses.

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

|                               | Apr. 1, 2007    | Adjustments   | Jun. 28, 2008   |
|-------------------------------|-----------------|---------------|-----------------|
| Current assets                | \$ 6,727        | \$ (2,357)    | \$ 4,370        |
| Property, plant and equipment | 2,029           | --            | 2,029           |
| Goodwill                      | 250             | 2,858         | 3,108           |
| Other intangibles             | 1,590           | --            | 1,590           |
| Current liabilities           | (3,205)         | (50)          | (3,255)         |
| <b>Total cash paid</b>        | <b>\$ 7,391</b> | <b>\$ 451</b> | <b>\$ 7,842</b> |

The goodwill and other intangibles of \$1.4 million associated with the trade name, are subject to the non-amortization provisions of SFAS No. 142, "Goodwill and Other Intangible Assets", from the date of acquisition. Other intangibles of \$0.2 million allocated to customer relationships are to be amortized over a period of 10 years. Goodwill and other intangibles of Jade are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are expected to be deductible for tax purposes.

### Carter-Hoffmann

On June 29, 2007, the company completed its acquisition of the assets and operations of Carter-Hoffmann ("Carter-Hoffmann"), a leading manufacturer of commercial cooking and warming equipment, from Carrier Commercial Refrigeration Inc., a subsidiary of Carrier Corporation, which is a unit of United Technologies Corporation, for an aggregate purchase price of \$15.9 million in cash plus transaction expenses.

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 finalization of the valuation of the assets and liabilities acquired.

The preliminary allocation of cash paid for the Carter-Hoffmann acquisition is summarized as follows (in thousands):

|                               | Jun. 29, 2007 | Adjustments | Jun. 28, 2008 |
|-------------------------------|---------------|-------------|---------------|
| Current assets                | \$ 7,912      | \$ (2,125)  | \$ 5,787      |
| Property, plant and equipment | 2,264         | --          | 2,264         |
| Goodwill                      | 9,452         | (1,421)     | 8,031         |
| Other intangibles             | --            | 3,910       | 3,910         |
| Current liabilities           | (3,646)       | (50)        | (3,696)       |
| Other non-current liabilities | (54)          | --          | (54)          |
| Total cash paid               | \$ 15,928     | \$ 314      | \$ 16,242     |

The goodwill and \$2.3 million of other intangibles associated with the trade name are subject to the non-amortization provisions of SFAS No. 142. Other intangibles also includes \$1.6 million allocated to customer relationships are to be amortized over a period of 4 years. Goodwill and other intangibles of Carter-Hoffmann are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are expected to be deductible for tax purposes.

#### MP Equipment

On July 2, 2007, the company completed its acquisition of the assets and operations of MP Equipment ("MP Equipment"), a leading manufacturer of food processing equipment for a purchase price of \$15.0 million in cash plus transaction expenses. An additional deferred payment of \$2.0 million is also due to the seller at the earlier of three years or upon the achievement of reaching certain profit targets. An additional contingent payment of \$1.0 million is also payable if the business reaches certain target profits.

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 finalization of the valuation of the assets and liabilities acquired.

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

|                               | Jul. 2, 2007 | Adjustments | Jun. 28, 2008 |
|-------------------------------|--------------|-------------|---------------|
| Current assets                | \$ 5,315     | \$ --       | \$ 5,315      |
| Property, plant and equipment | 297          | --          | 297           |
| Goodwill                      | 9,290        | 896         | 10,186        |
| Other intangibles             | 6,420        | (770)       | 5,650         |
| Other assets                  | 16           | --          | 16            |
| Current liabilities           | (4,018)      | (50)        | (4,068)       |
| Other non-current liabilities | (2,127)      | --          | (2,127)       |
| Total cash paid               | \$ 15,193    | \$ 76       | \$ 15,269     |

The goodwill and \$3.3 million of other intangibles associated with the trade name are subject to the non-amortization provisions of SFAS No. 142. Other intangibles also includes \$0.3 million allocated to backlog, \$0.3 million allocated to developed technology and \$1.8 million allocated to customer relationships which are to be amortized over periods of 6 months, 5 years and 5 years, respectively. Goodwill and other intangibles of MP Equipment are allocated to the Food Processing Equipment Group for segment reporting purposes. These assets are expected to be deductible for tax purposes.

#### Wells Bloomfield

On August 3, 2007, the company completed its acquisition of the assets and operations of Wells Bloomfield (“Wells Bloomfield”), a leading manufacturer of commercial cooking and beverage equipment from Carrier Commercial Refrigeration Inc., a subsidiary of Carrier Corporation, which is a unit of United Technologies Corporation, for an aggregate purchase price of \$28.4 million in cash plus transaction expenses.

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 finalization of the valuation of the assets and liabilities acquired.

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

|                               | Aug. 3, 2007     | Adjustments   | Jun. 28, 2008    |
|-------------------------------|------------------|---------------|------------------|
| Cash                          | \$ 2             | \$ --         | \$ 2             |
| Current assets                | 15,133           | (303)         | 14,830           |
| Property, plant and equipment | 3,961            | (5)           | 3,956            |
| Goodwill                      | 5,835            | 2,202         | 8,037            |
| Other intangibles             | 8,130            | (200)         | 7,930            |
| Other assets                  | 21               | --            | 21               |
| Current liabilities           | (4,277)          | (1,588)       | (5,865)          |
| <b>Total cash paid</b>        | <b>\$ 28,805</b> | <b>\$ 106</b> | <b>\$ 28,911</b> |

The goodwill and \$5.5 million of other intangibles associated with the trade name are subject to the non-amortization provisions of SFAS No. 142. Other intangibles of \$2.4 million allocated to customer relationships are to be amortized over a period of 4 years. Goodwill and other intangibles of Wells Bloomfield are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are expected to be deductible for tax purposes.

Star

On December 31, 2007, the company acquired the stock of New Star International Holdings, Inc. and subsidiaries (“Star”), a leading manufacturer of commercial cooking equipment for an aggregate purchase price of \$188.4 million in cash plus transaction expenses. During the three month period ended June 28, 2008, the company finalized the working capital provision resulting in an additional payment of \$173,000.

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 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 finalization of the valuation of the assets and liabilities acquired.

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

|                               | Dec. 31, 2007     | Adjustments   | Jun. 28, 2008     |
|-------------------------------|-------------------|---------------|-------------------|
| Cash                          | \$ 376            | \$ --         | \$ 376            |
| Current assets                | 27,783            | --            | 27,783            |
| Property, plant and equipment | 8,225             | --            | 8,225             |
| Goodwill                      | 101,365           | 337           | 101,702           |
| Other intangibles             | 75,150            | --            | 75,150            |
| Other assets                  | 71                | --            | 71                |
| Current liabilities           | (10,205)          | (164)         | (10,369)          |
| Deferred tax liabilities      | (8,837)           | --            | (8,837)           |
| Other non-current liabilities | (4,295)           | --            | (4,295)           |
| <b>Total cash paid</b>        | <b>\$ 189,633</b> | <b>\$ 173</b> | <b>\$ 189,806</b> |

The goodwill and \$47.0 million of other intangibles associated with the trade name are subject to the non-amortization provisions of SFAS No. 142. Other intangibles also includes \$0.4 million allocated to backlog, \$3.8 million allocated to developed technology and \$24.0 million allocated to customer relationships which are to be amortized over periods of 1 month, 7 years and 7 years, respectively. Goodwill and other intangibles of Star are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

*Pro forma Financial Information*

The following unaudited pro forma results of operations for the year ended December 29, 2007, not previously included in the original Form 10-Q, assumes the Star acquisition was completed on December 31, 2006. The pro forma results include adjustments to reflect additional interest expense to fund the acquisition, amortization of intangibles associated with the acquisition, and the effects of adjustments made to the carrying value of certain assets.

|                         | December 29, 2007 | December 30, 2006 |
|-------------------------|-------------------|-------------------|
| Net sales               | \$ 592,513        | \$ 487,283        |
| Net earnings            | \$ 51,769         | \$ 40,672         |
| Net earnings per share: |                   |                   |
| Basic                   | \$ 3.30           | \$ 2.66           |
| Diluted                 | \$ 3.06           | \$ 2.46           |

The pro forma financial information presented above is not necessarily indicative of either the results of operations that would have occurred had the acquisition of Star, been effective on December 31, 2006 or of future operations of the company. Also, the pro forma financial information does not reflect the costs which the company has or may incur to integrate Star.

Giga

On April 22, 2008, the company acquired the stock of Giga Grandi Cucine S.r.l. (“Giga”), a leading European manufacturer of ranges, ovens and steam cooking equipment for a purchase price of \$9.7 million in cash plus transaction costs. The company also assumed \$5.1 million of debt included as part of the net assets of Giga. An additional deferred payment of \$5.4 million is also due the seller ratably over a three year period. The purchase price is subject to adjustment based upon a working capital provision within the purchase agreement.

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 finalization of the valuation of the assets and liabilities acquired.

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

|                                      | Apr. 22, 2008 |
|--------------------------------------|---------------|
| Cash                                 | \$ 222        |
| Current assets                       | 14,645        |
| Property, plant and equipment        | 628           |
| Goodwill                             | 10,135        |
| Other intangibles                    | 3,330         |
| Other assets                         | 473           |
| Current maturities of long-term debt | (5,105)       |
| Current liabilities                  | (8,757)       |
| Other non-current liabilities        | (5,431)       |



Total cash paid \$ 10,140

11

---

The goodwill and \$2.4 million of other intangibles associated with the trade name are subject to the non-amortization provisions of SFAS No. 142. Other intangibles also includes \$0.1 million allocated to backlog and \$0.8 million allocated to customer relationships, which are to be amortized over periods of 3 months and 4 to 10 years, respectively. Goodwill and other intangibles of Giga are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

### Frifri

On April 23, 2008, the company acquired the assets of FriFri aro SA (“FriFri”), a leading European supplier of frying systems for an aggregate purchase price of \$3.4 million plus transaction costs. The purchase price is subject to adjustment based upon a working capital provision within the purchase agreement.

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 finalization of the valuation of the assets and liabilities acquired.

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

|                               | Apr. 23, 2008 |         |
|-------------------------------|---------------|---------|
| Cash                          | \$            | 469     |
| Current assets                |               | 4,263   |
| Property, plant and equipment |               | 460     |
| Goodwill                      |               | 1,155   |
| Current liabilities           |               | (2,828) |
| <hr/>                         |               |         |
| Total cash paid               | \$            | 3,519   |

The goodwill associated with the trade name are subject to the non-amortization provisions of SFAS No. 142. Goodwill of Frifri is allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

**3) Stock Split**

On May 3, 2007, the company's Board of Directors authorized a two-for-one split of the company's common stock in the form of a stock dividend. The stock dividend was paid on June 15, 2007 to company shareholders of record as of June 1, 2007. The company's common stock began trading on a split-adjusted basis on June 18, 2007. All references in the accompanying condensed consolidated financial statements and notes thereto to net earnings per share and the number of shares have been adjusted to reflect this stock split.

**4) 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 partially 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 reserve requirement 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 pending litigation will have a material adverse effect on its financial condition, results of operations or cash flows of the company.

**5) Recently Issued Accounting Standards**

In December 2007, the FAS issued SFAS No. 141R, "Business Combinations". This statement provides companies with principles and requirements on how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree as well as the recognition and measurement of goodwill acquired in a business combination. This statement also requires certain disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Acquisition costs associated with the business combination will generally be expensed as incurred. This statement is effective for business combinations occurring in fiscal years beginning after December 15, 2008. Early adoption of FASB Statement No. 141R is not permitted. The company is evaluating the impact the application of this guidance will have on the company's financial position, results of operations and cash flows. The company will adopt this statement for acquisitions consummated after the statement's effective date.

In December 2007, the FASB issued SFAS No. 160, "Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51". This statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest (minority interest) in a subsidiary and for the deconsolidation of a subsidiary. Upon its adoption, effective as of the beginning of the company's 2009 fiscal year, noncontrolling interests will be classified as equity in the company's financial statements and income and comprehensive income attributed to the noncontrolling interest will be included in the company's income and comprehensive income. The provisions of this standard must be applied retrospectively upon adoption. The company does not anticipate that the adoption of SFAS No. 160 will have a material impact on its financial statements.

In March 2008, the FASB issued SFAS No. 161, "Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133." This statement amends SFAS No. 133 to require enhanced disclosures about an entity's derivative and hedging activities. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The company is evaluating the impact the application of this guidance will have on the company's financial position, results of operations and cash flows.

In May 2008, the FASB issued SFAS No. 162, "The Hierarchy of Generally Accepted Accounting Principles." This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States. This statement directs the hierarchy to the entity, rather than the independent auditors, as the entity is responsible for selecting accounting principles for financial statements that are presented in conformity with generally accepted accounting principles. This statement is effective 60 days following the SEC's approval of the Public Company Accounting Oversight Board amendments to remove the hierarchy of generally accepted accounting principles from the auditing standards. The company does not anticipate that the adoption of SFAS No. 162 will have a material impact on its financial statements.

## 6) Other Comprehensive Income

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

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

|   | Three Months Ended |               | Six Months Ended |               |
|---|--------------------|---------------|------------------|---------------|
|   | Jun. 28, 2008      | Jun. 30, 2007 | Jun. 28, 2008    | Jun. 30, 2007 |
| Net earnings  | \$ 17,117          | \$ 12,582     | \$ 30,298        | \$ 23,302     |
| Currency translation adjustment                           | 74                 | 244           | 919              | 276           |
| Unrealized loss (gain) on interest rate swaps, net of tax | 764                | 37            | 220              | (99)          |
| Comprehensive income                                      | \$ 17,955          | \$ 12,863     | \$ 31,437        | \$ 23,479     |

Accumulated other comprehensive income is comprised of minimum pension liability of \$(0.9) million, net of taxes of \$(0.6) million as of June 28, 2008 and December 29, 2007, foreign currency translation adjustments of \$2.7 million as of June 28, 2008 and \$1.7 million as of December 29, 2007, and an unrealized gain on interest rate swaps of \$0.2 million, net of taxes of \$0.4 million, as of June 28, 2008.

**8) 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 \$15.9 million at June 28, 2008 and \$16.4 million at December 29, 2007 and represented approximately 17% and 25% 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 June 28, 2008 and December 29, 2007 are as follows:

|                         | Jun. 28, 2008  | Dec. 29, 2007 |
|-------------------------|----------------|---------------|
|                         | (in thousands) |               |
| Raw materials and parts | \$ 26,281      | \$ 25,047     |
| Work-in-process         | 20,801         | 11,033        |
| Finished goods          | 45,603         | 30,669        |
|                         | 92,685         | 66,749        |
| LIFO adjustment         | (1,111)        | (311)         |
|                         | \$ 91,574      | \$ 66,438     |

**8) Accrued Expenses**

Accrued expenses consist of the following:

|  | Jun. 28, 2008  | Dec. 29, 2007 |
|--|----------------|---------------|
|  | (in thousands) |               |
| Accrued payroll and related expenses       | \$ 18,072      | \$ 21,448     |
| Accrued warranty                           | 13,637         | 12,276        |
| Accrued customer rebates                   | 10,137         | 16,326        |
| Accrued product liability and workers comp | 8,921          | 6,978         |
| Advance customer deposits                  | 7,696          | 7,971         |
| Accrued commission                         | 4,953          | 4,265         |
| Other accrued expenses                     | 29,356         | 26,317        |
|  | \$ 92,772      | \$ 95,581     |

**9) 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:

|  | Six Months Ended<br>Jun.28, 2008<br>(in thousands) |         |
|--|--|---------|
| Beginning balance                        | \$   | 12,276  |
| Warranty reserve related to acquisitions |  | 1,453   |
| Warranty expense                         |  | 7,665   |
| Warranty claims                          |  | (7,757) |
| Ending balance                           | \$   | 13,637  |

**10) Financing Arrangements**

|  | Jun.28, 2008   |         | Dec. 29, 2007 |        |
|--|----------------|---------|---------------|--------|
|  | (in thousands) |         |               |        |
| Senior secured revolving credit line       | \$             | 263,600 | \$            | 91,350 |
| Foreign loan                               |                | 10,973  |               | 4,847  |
| Total debt                                 | \$             | 274,573 | \$            | 96,197 |
| Less: Current maturities of long-term debt |                | 8,705   |               | 2,683  |
| Long-term debt                             | \$             | 265,868 | \$            | 93,514 |

During the fourth quarter of 2007 the company entered into a new senior secured credit facility. Terms of the senior credit agreement provide for \$450.0 million of availability under a revolving credit line. As of June 28, 2008, the company had \$263.6 million of borrowings outstanding under this facility. The company also has \$5.7 million in outstanding letters of credit, which reduces the borrowing availability under the revolving credit line.

Borrowings under the senior secured credit facility are assessed at an interest rate at 1.25% above LIBOR for long-term borrowings or at the higher of the Prime rate and the Federal Funds Rate. At June 28, 2008 the average interest rate on the senior debt amounted to 3.87%. 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 0.25% as of June 28, 2008.



In August 2006, the company completed its acquisition of Houno A/S in Denmark. This acquisition was funded in part with locally established debt facilities with borrowings in Danish Krone. On June 28, 2008 these facilities amounted to \$5.5 million in US dollars, including \$3.1 million outstanding under a revolving credit facility and \$2.4 million of a term loan. The interest rate on the revolving credit facility is assessed at 1.25% above Euro LIBOR, which amounted to 6.3% on June 28, 2008. The term loan matures in 2013 and the interest rate is assessed at 6.4%.

In April 2008, the company completed its acquisition of Giga Grandi Cucine S.r.l in Italy. This acquisition was funded in part with locally established debt facilities with borrowings in denominated in Euro. On June 28, 2008 these facilities amounted to \$5.8 million in US dollars. The borrowings under these facilities are collateralized by the receivables of the company. The interest rate on the credit facilities is tied to six month Euro LIBOR. The facilities mature in April of 2015.

The company has historically entered into interest rate swap agreements to effectively fix the interest rate on its outstanding debt. The agreements swap one-month LIBOR for fixed rates. As of June 28, 2008 the company had the following interest rate swaps in effect:

| <b>Notional Amount</b> | <b>Fixed Interest Rate</b> | <b>Effective Date</b> | <b>Maturity Date</b> |
|------------------------|----------------------------|-----------------------|----------------------|
| \$ 10,000,000          | 5.030%                     | 3/3/2006              | 12/21/2009           |
| \$ 10,000,000          | 2.520%                     | 2/19/2008             | 2/19/2009            |
| \$ 20,000,000          | 2.635%                     | 2/6/2008              | 2/6/2009             |
| \$ 25,000,000          | 3.350%                     | 1/14/2008             | 1/14/2010            |
| \$ 10,000,000          | 2.920%                     | 2/1/2008              | 2/1/2010             |
| \$ 10,000,000          | 2.785%                     | 2/6/2008              | 2/6/2010             |
| \$ 10,000,000          | 3.033%                     | 2/6/2008              | 2/6/2011             |
| \$ 10,000,000          | 2.820%                     | 2/1/2008              | 2/1/2009             |
| \$ 10,000,000          | 3.590%                     | 6/10/2008             | 6/10/2011            |
| \$ 20,000,000          | 3.350%                     | 6/10/2008             | 6/10/2010            |

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. The credit facility is secured by the capital stock of the company's domestic subsidiaries, 65% of the capital stock of the company's foreign subsidiaries and substantially all other assets of the company. At June 28, 2008, the company was in compliance with all covenants pursuant to its borrowing agreements.



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 June 28, 2008 the company had no forward contracts outstanding.

*Interest Rate:* The company has entered into interest rate swaps to fix the interest rate applicable to certain of its variable-rate debt. The agreements swap one-month LIBOR for a fixed rates. The company has designated these swaps as cash flow hedges and all changes in fair value of the swaps are recognized in accumulated other comprehensive income. As of June 28, 2008, the fair value of these instruments was less than \$0.1 million. The change in fair value of these swap agreements in the six months of 2008 was a gain of \$0.8 million, net of taxes.

| <b>Notional Amount</b> | <b>Fixed Interest Rate</b> | <b>Effective Date</b> | <b>Maturity Date</b> | <b>Fair Value Jun. 28, 2008</b> | <b>Changes In Fair Value (net of taxes)</b> |
|------------------------|----------------------------|-----------------------|----------------------|---------------------------------|---|
| \$ 10,000,000          | 5.030%                     | 03/03/2006            | 12/21/2009           | \$ (264,000)                    | \$ 119,000 <sup>1</sup>                     |
| \$ 10,000,000          | 2.520%                     | 2/19/2008             | 2/19/2009            | \$ 12,000                       | \$ 24,000                                   |
| \$ 20,000,000          | 2.635%                     | 2/6/2008              | 2/6/2009             | \$ 4,000                        | \$ 42,000                                   |
| \$ 25,000,000          | 3.350%                     | 1/14/2008             | 1/14/2010            | \$ (80,000)                     | \$ 230,000                                  |
| \$ 10,000,000          | 2.920%                     | 2/1/2008              | 2/1/2010             | \$ 40,000                       | \$ 88,000                                   |
| \$ 10,000,000          | 2.785%                     | 2/6/2008              | 2/6/2010             | \$ 5,000                        | \$ 32,000                                   |
| \$ 10,000,000          | 3.033%                     | 2/6/2008              | 2/6/2011             | \$ 63,000                       | \$ 86,000                                   |
| \$ 10,000,000          | 2.820%                     | 2/1/2008              | 2/1/2009             | \$ 150,000                      | \$ 150,000                                  |
| \$ 10,000,000          | 3.590%                     | 6/10/2008             | 6/10/2011            | \$ 35,000                       | \$ 21,000                                   |
| \$ 20,000,000          | 3.350%                     | 6/10/2008             | 6/10/2010            | \$ (9,000)                      | \$ (5,000)                                  |

<sup>1</sup> Previous to the fiscal quarter ended March 29, 2008, this swap had not been designated as an effective cash flow hedge. The swap was designated as an effective cash flow hedge during the quarter ended March 29, 2008. In accordance with SFAS No. 133, the net reduction of \$0.2 million in the fair value of this swap prior to the designation date has been recorded as a loss in earnings for the first quarter 2008.

18

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 segment has manufacturing facilities in California, Illinois, Michigan, Missouri, Nevada, New Hampshire, North Carolina, Tennessee, Vermont, Denmark, Italy, the Philippines and Switzerland. The Commercial Foodservice Equipment group manufactures conveyor ovens, convection ovens, fryers, ranges, toasters, combi ovens, steamers, broilers, deck ovens, baking ovens, proofers, beverage systems and beverage dispensing equipment, counter-top cooking and warming equipment. This business segment's principal product lines include Middleby Marshall® and CTX® conveyor oven equipment, Blodgett® convection ovens, conveyor ovens, deck oven equipment, Blodgett Combi® cooking equipment, Blodgett Range® ranges, Nu-Vu® baking ovens and proofers, Pitco Frialator® fryer equipment, Southbend® ranges, convection ovens and heavy-duty cooking equipment, Toastmaster® toasters and counterline cooking and warming equipment, Jade Range® ranges and ovens, Carter Hoffmann® warming, holding and transporting equipment, Bloomfield® beverage systems and beverage dispensing equipment, Wells® convection ovens, counterline cooking equipment and ventless cooking systems, Star® light duty cooking equipment, Holman® toasting equipment, Lang® ovens and ranges, Houno® combi-ovens and baking ovens, Giga® ranges, ovens and steam equipment, Frifri® frying systems and MagiKitch'n® charbroilers and catering equipment.

The Food Processing Equipment business group manufactures cooking and packaging equipment for the food processing industry. This business segment has manufacturing facilities in Georgia and Wisconsin. Its principal products include Alkar® batch ovens, conveyORIZED ovens and continuous process ovens, RapidPak® food packaging machinery and MP Equipment® breading, battering, mixing, forming, and slicing equipment.

The International Distribution Division provides integrated sales, export management, distribution and installation services through its operations in China, India, Lebanon, Mexico, the Philippines, Russia, South Korea, Spain, Sweden, 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.

19

---

**Net Sales Summary**  
**(dollars in thousands)**

|                                   | Three Months Ended |         |               |         | Six Months Ended |         |               |         |
|-----------------------------------|--------------------|---------|---------------|---------|------------------|---------|---------------|---------|
|                                   | Jun. 28, 2008      |         | Jun. 30, 2007 |         | Jun. 28, 2008    |         | Jun. 30, 2007 |         |
|                                   | Sales              | Percent | Sales         | Percent | Sales            | Percent | Sales         | Percent |
| <b><u>Business Divisions:</u></b> |                    |         |               |         |                  |         |               |         |
| Commercial                        |                    |         |               |         |                  |         |               |         |
| Foodservice                       | \$ 146,869         | 84.6    | \$ 93,108     | 82.2    | \$ 280,885       | 84.0    | \$ 183,647    | 83.9    |
| Food Processing                   | 20,468             | 11.8    | 13,353        | 11.8    | 40,356           | 12.1    | 25,549        | 11.7    |
| International                     |                    |         |               |         |                  |         |               |         |
| Distribution(1)                   | 15,425             | 8.9     | 14,521        | 12.8    | 31,218           | 9.3     | 28,097        | 12.8    |
| <b><u>Intercompany sales</u></b>  |                    |         |               |         |                  |         |               |         |
| (2)                               | (9,249)            | (5.3)   | (7,734)       | (6.8)   | (18,063)         | (5.4)   | (18,350)      | (8.4)   |
| Total                             | \$ 173,513         | 100.0%  | \$ 113,248    | 100.0%  | \$ 334,396       | 100.0%  | \$ 218,943    | 100.0%  |

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

(2) *Represents the elimination of sales 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<sup>(1)</sup>(in thousands):

|   | Commercial<br>Foodservice | Food<br>Processing | International<br>Distribution | Corporate<br>and<br>Other <sup>(2)</sup> | Eliminations <sup>(3)</sup> | Total      |
|---|---------------------------|--------------------|-------------------------------|--|-----------------------------|------------|
| <b>Three months ended June 28, 2008</b> |                           |                    |                               |  |                             |            |
| Net sales                               | \$ 146,869                | \$ 20,468          | \$ 15,425                     | \$ --                                    | \$ (9,249)                  | \$ 173,513 |
| Operating income                        | 37,657                    | 3,297              | 1,092                         | (9,707)                                  | 153                         | 32,492     |
| Depreciation expense                    | 1,376                     | 103                | 47                            | 35                                       | --                          | 1,561      |
| Net capital expenditures                | 545                       | 25                 | 49                            | --                                       | --                          | 619        |
| <b>Six months ended June 28, 2008</b>   |                           |                    |                               |  |                             |            |
| Net sales                               | \$ 280,885                | \$ 40,356          | \$ 31,218                     | \$ --                                    | \$ (18,063)                 | \$ 334,396 |
| Operating income                        | 68,204                    | 6,086              | 2,166                         | (18,149)                                 | 201                         | 58,508     |
| Depreciation expense                    | 2,645                     | 207                | 99                            | 72                                       | --                          | 3,023      |
| Net capital expenditures                | 2,444                     | 76                 | 201                           | 22                                       | --                          | 2,743      |
| Total assets                            | 535,556                   | 74,047             | 30,805                        | 24,810                                   | (8,475)                     | 656,743    |
| Long-lived assets <sup>(4)</sup>        | 370,046                   | 37,618             | 724                           | 16,228                                   | --                          | 424,616    |
| <b>Three months ended June 30, 2007</b> |                           |                    |                               |  |                             |            |
| Net sales                               | \$ 93,108                 | \$ 13,353          | \$ 14,521                     | \$ --                                    | \$ (7,734)                  | \$ 113,248 |
| Operating income                        | 22,291                    | 3,617              | 1,136                         | (6,199)                                  | 357                         | 21,202     |
| Depreciation expense                    | 808                       | 124                | 40                            | 37                                       | --                          | 1,009      |
| Net capital expenditures                | 408                       | 6                  | 44                            | 13                                       | --                          | 471        |
| <b>Six months ended June 30, 2007</b>   |                           |                    |                               |  |                             |            |
| Net sales                               | \$ 183,647                | \$ 25,549          | \$ 28,097                     | \$ --                                    | \$ (18,350)                 | \$ 218,943 |
| Operating income                        | 44,079                    | 6,017              | 1,982                         | (12,481)                                 | 411                         | 40,008     |
| Depreciation expense                    | 1,503                     | 251                | 83                            | 73                                       | --                          | 1,910      |
| Net capital expenditures                | 928                       | 12                 | 55                            | 74                                       | --                          | 1,069      |
| Total assets                            | 249,058                   | 44,858             | 26,883                        | 6,775                                    | (8,352)                     | 319,222    |
| Long-lived assets <sup>(4)</sup>        | 147,766                   | 30,491             | 433                           | 5,990                                    | --                          | 184,680    |

(1) Non-operating expenses are not allocated to the operating segments. Non-operating expenses consist of interest expense and deferred financing amortization, foreign exchange gains and losses and other income and expense items outside of income from operations.

(2) *Includes corporate and other general company assets and operations.*

(3) *Includes elimination of intercompany sales, profit in inventory and intercompany receivables. Intercompany sale transactions are predominantly from the Commercial Foodservice Equipment Group to the International Distribution Division.*

(4) *Long-lived assets of the Commercial Foodservice Equipment Group includes assets located in the Philippines, which amounted to \$1,874 and \$1,969 in second quarter 2008 and 2007, respectively, assets located in Denmark which amounted to \$3,131 and \$781 in second quarter 2008 and 2007, respectively, assets located in Italy which amounted to \$16,067 in second quarter of 2008 and assets located in Switzerland which amounted to \$1,725 in second quarter 2008.*

Net sales by major geographic region, including those sales from the Commercial Foodservice Equipment Group direct to international customers, were as follows (in thousands):

|                          | Three Months Ended |               | Six Months Ended |               |
|--------------------------|--------------------|---------------|------------------|---------------|
|                          | Jun. 28, 2008      | Jun. 30, 2007 | Jun. 28, 2008    | Jun. 30, 2007 |
| United States and Canada | \$ 138,619         | \$ 91,509     | \$ 271,572       | \$ 177,541    |
| Asia                     | 9,358              | 6,169         | 16,510           | 11,642        |
| Europe and Middle East   | 20,489             | 12,495        | 36,810           | 23,272        |
| Latin America            | 5,047              | 3,075         | 9,454            | 6,488         |
| Net sales                | \$ 173,513         | \$ 113,248    | \$ 334,396       | \$ 218,943    |

### 13) Employee Retirement Plans

#### (a) Pension Plans

The company maintains a non-contributory defined benefit plan for its union employees at the Elgin, Illinois facility. Benefits are determined based upon retirement age and years of service with the company. This defined benefit plan was frozen on April 30, 2002 and no further benefits accrue to the participants beyond this date. Plan participants will receive or continue to receive payments for benefits earned on or prior to April 30, 2002 upon reaching retirement age. The employees participating in the defined benefit plan were enrolled in a newly established 401K savings plan on September 30, 2002, further described below.

The company also maintains a retirement benefit agreement with its Chairman. The retirement benefits are based upon a percentage of the Chairman's final base salary. Additionally, the company maintains a retirement plan for non-employee directors. The plan provides for an annual benefit upon a change in control of the company or retirement from the Board of Directors at age 70, equal to 100% of the director's last annual retainer, payable for a number of years equal to the director's years of service up to a maximum of 10 years.

Contributions under the union plan are funded in accordance with provisions of The Employee Retirement Income Security Act of 1974. There are no contributions expected to be made in 2008. Contributions to the directors' plan are based upon actual retirement benefits as they retire.

#### (b) 401K Savings Plans

The company maintains two separate defined contribution 401K savings plans covering all employees in the United States. These two plans separately cover the union employees at the Elgin, Illinois facility and all other remaining union and non-union employees in the United States. The company makes profit sharing contributions to the various plans in accordance with the requirements of the plan. Profit sharing contributions for the Elgin Union 401K savings plans are made in accordance with the agreement.

### 14)

In July 1998, the company's Board of Directors adopted a stock repurchase program that authorized the purchase of common shares in open market purchases. As of June 28, 2008, 1,167,868 shares had been purchased under the 1998

stock repurchase program. 210,000 shares were repurchased by the company during the three month period ended June 28, 2008.

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

**Informational Note**

This report contains forward-looking statements subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. The company cautions readers that these projections are based upon future results or events and are highly dependent upon a variety of important factors which could cause such results or events to differ materially from any forward-looking statements which may be deemed to have been made in this report, or which are otherwise made by or on behalf of the company. Such factors include, but are not limited to, volatility in earnings resulting from goodwill impairment losses which may occur irregularly and in varying amounts; variability in financing costs; quarterly variations in operating results; dependence on key customers; international exposure; foreign exchange and political risks affecting international sales; ability to protect trademarks, copyrights and other intellectual property; changing market conditions; the impact of competitive products and pricing; the timely development and market acceptance of the company's products; the availability and cost of raw materials; and other risks detailed herein and from time-to-time in the company's Securities and Exchange Commission filings, including the company's 2007 Annual Report on Form 10-K/A.



**Net Sales Summary**  
(dollars in thousands)

|                                   | Three Months Ended |         |               |         | Six Months Ended |         |               |         |
|-----------------------------------|--------------------|---------|---------------|---------|------------------|---------|---------------|---------|
|                                   | Jun. 28, 2008      |         | Jun. 30, 2007 |         | Jun. 28, 2008    |         | Jun. 30, 2007 |         |
|                                   | Sales              | Percent | Sales         | Percent | Sales            | Percent | Sales         | Percent |
| <b><u>Business Divisions:</u></b> |                    |         |               |         |                  |         |               |         |
| Commercial                        |                    |         |               |         |                  |         |               |         |
| Foodservice                       | \$ 146,869         | 84.6    | \$ 93,108     | 82.2    | \$ 280,885       | 84.0    | \$ 183,647    | 83.9    |
| Food Processing                   | 20,468             | 11.8    | 13,353        | 11.8    | 40,356           | 12.1    | 25,549        | 11.7    |
| International                     |                    |         |               |         |                  |         |               |         |
| Distribution(1)                   | 15,425             | 8.9     | 14,521        | 12.8    | 31,218           | 9.3     | 28,097        | 12.8    |
| <b><u>Intercompany sales</u></b>  |                    |         |               |         |                  |         |               |         |
| (2)                               | (9,249)            | (5.3)   | (7,734)       | (6.8)   | (18,063)         | (5.4)   | (18,350)      | (8.4)   |
| Total                             | \$ 173,513         | 100.0%  | \$ 113,248    | 100.0%  | \$ 334,396       | 100.0%  | \$ 218,943    | 100.0%  |

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

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

**Results of Operations**

The following table sets forth certain consolidated statements of earnings items as a percentage of net sales for the periods.

|  | Three Months Ended |                  | Six Months Ended |                  |
|--|--------------------|------------------|------------------|------------------|
|  | Jun. 28,<br>2008   | Jun. 30,<br>2007 | Jun. 28,<br>2008 | Jun. 30,<br>2007 |
| Net sales  | 100.0%             | 100.0%           | 100.0%           | 100.0%           |
| Cost of sales  | 61.4               | 60.4             | 62.3             | 60.7             |
| Gross profit   | 38.6               | 39.6             | 37.7             | 39.3             |
| Selling, general and administrative expenses             | 19.9               | 20.9             | 20.2             | 21.0             |
| Income from operations                                   | 18.7               | 18.7             | 17.5             | 18.3             |
| Net interest expense and deferred financing amortization | 1.8                | 1.1              | 2.0              | 1.1              |
| Other (income) expense, net                              | 0.2                | (0.5)            | 0.3              | (0.2)            |
| Earnings before income taxes                             | 16.7               | 18.1             | 15.2             | 17.4             |
| Provision for income taxes                               | 6.8                | 7.0              | 6.1              | 6.8              |
| Net earnings   | 9.9%               | 11.1%            | 9.1%             | 10.6%            |

**Three Months Ended June 28, 2008 Compared to Three Months Ended June 30, 2007**

**NET SALES.** Net sales for the second quarter of fiscal 2008 were \$173.5 million as compared to \$113.2 million in the second quarter of 2007.

Net sales at the Commercial Foodservice Equipment Group amounted to \$146.9 million in the second quarter of 2008 as compared to \$93.1 million in the prior year quarter.

Net sales from the acquisitions of Carter-Hoffmann, Wells Bloomfield, Star, Giga and Frifri, which were acquired on June 29, 2007, August 3, 2007, December 31, 2007, April 22, 2008 and April 23, 2008, respectively, accounted for an increase of \$50.0 million during the second quarter of 2008. Excluding the impact of acquisitions, net sales of commercial foodservice equipment increased \$3.4 million, despite difficult economic conditions reflecting the impact of new product introductions and increased business resulting from menu changes at certain restaurant chain customers.

Net sales for the Food Processing Equipment Group amounted to \$20.5 million in the second quarter of 2008 as compared to \$13.4 million in the prior year quarter. Net sales of MP Equipment, which was acquired on July 2, 2007, accounted for an increase of \$10.2 million. Excluding the impact of acquisitions, net sales of food processing equipment decreased \$2.9 million due to delayed customer purchases as a result of economic uncertainties and quarterly variations which occur as a result of the timing of large orders.

Net sales at the International Distribution Division increased by \$0.9 million to \$15.4 million or 6%, reflecting higher sales in Asia, Europe and Latin America. Increased international sales reflect increased business with restaurant chains and increased pricing competitiveness driven by the weakened US dollar.

**GROSS PROFIT.** Gross profit increased to \$67.0 million in the second quarter of 2008 from \$44.9 million in the prior year period, reflecting the impact of higher sales volumes. The gross margin rate was 38.6% in the second quarter of 2008 as compared to 39.6% in the prior year quarter. The net decrease in the gross margin rate reflects:

- Inventory step-up charge of \$0.5 million related to the acquisitions of Giga and Frifri.
- The adverse impact of steel costs which have risen significantly from the prior year quarter.
- Lower margins at certain of the newly acquired operating companies which are in the process of being integrated within the company.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Combined selling, general, and administrative expenses increased from \$23.7 million in the second quarter of 2007 to \$34.5 million in the second quarter of 2008. As a percentage of net sales, operating expenses decreased from 20.9% in the second quarter of 2007 to 19.9% in the second quarter of 2008. Selling expenses increased from \$12.0 million in the second quarter of 2007 to \$16.7 million in the second quarter of 2008, reflecting \$4.9 million of incremental costs associated with the acquisitions of Carter-Hoffmann, completed June 29, 2007, MP Equipment, completed July 2, 2007, Wells Bloomfield, completed August 3, 2007, Star completed on December 31, 2007, Giga completed on April 22, 2008 and Frifri completed on April 23, 2008. General and administrative expenses increased from \$11.7 million in the second quarter of 2007 to \$17.8 million in the second quarter of 2008. General and administrative expenses reflect \$4.1 million of costs associated with the acquired operations of Carter-Hoffmann, MP Equipment, Wells Bloomfield, Star, Giga and Frifri. Increased general and administrative costs also include increased non-cash stock compensation costs which increased by \$1.2 million from the prior year second quarter.

**NON-OPERATING EXPENSES.** Interest and deferred financing amortization costs increased to \$3.0 million in the second quarter of 2008 as compared to \$1.3 million in the second quarter of 2007, due to increased borrowings resulting from recent acquisitions. Other expense was \$0.6 million in the second quarter of 2008 as compared to other income of \$0.6 million in the prior year second quarter. Other expense in the second quarter of 2008 included \$0.4 million of foreign exchange losses.

**INCOME TAXES.** A tax provision of \$11.8 million, at an effective rate of 41%, was recorded during the second quarter of 2008, as compared to a \$8.0 million provision at a 39% effective rate in the prior year quarter.

#### **Six Months Ended June 30, 2008 Compared to Six Months Ended June 30, 2007**

**NET SALES.** Net sales for the six-month period ended June 28, 2008 were \$334.4 million as compared to \$218.9 million in the six-month period ended June 30, 2007.

Net sales at the Commercial Foodservice Equipment Group amounted to \$280.9 million in the six-month period ended June 28, 2008 as compared to \$183.6 million in the six-month period ended June 30, 2007.

Net sales from the acquisitions of Carter-Hoffmann, Wells Bloomfield, Star, Giga and Frifri, which were acquired on June 29, 2007, August 3, 2007, December 31, 2007, April 22, 2008 and April 23, 2008, respectively, accounted for an increase of \$90.4 million during the first six months of 2008. Excluding the impact of acquisitions, net sales of commercial foodservice equipment increased \$6.9 million for the six-month period ended June 28, 2008 compared to the six-month period ended June 30, 2007.

Net sales for the Food Processing Equipment Group increased by \$14.8 million to \$40.4 for the six-month period ended June 28, 2008 from \$25.5 million in the six-month period ended June 30, 2007. Excluding the impact of acquisitions, net sales of food processing equipment decreased \$5.1 million due to delayed customer purchases as a result of economic uncertainties and quarterly variations which occur as a result of the timing of large orders.

Net sales at the International Distribution Division increased from \$28.1 million for the six-month period ended June 30, 2007 to \$31.2 million for the six-month period ended June 28, 2008, reflecting higher sales in Latin America and Asia, which more than offset a decline in sales in Europe, which had strong sales in the prior year due to an oven rollout with a major restaurant chain customer. International sales benefited from expansion of the U.S. chains overseas and increased business with local and regional restaurant chains in developing markets.

**GROSS PROFIT.** Gross profit increased to \$125.9 million for the six-month period ended June 28, 2008 from \$86.0 million in the six-month period ended June 30, 2007, reflecting the impact of higher sales volumes. The gross margin rate was 37.7% for the six-month period ended June 28, 2008 compared to 39.3% for the six-month period ended June 30, 2007. The net decrease in the gross margin rate reflects:

- Inventory step-up charges of \$2.0 million related to the acquisition of Star, Giga and Frifri.
- The adverse impact of steel costs which have risen significantly from the prior year.
- Lower margins at certain of the newly acquired operating companies which are in the process of being integrated within the company.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Combined selling, general, and administrative expenses increased from \$46.0 million in the six-month period ended June 30, 2007 to \$67.4 million in the six-month period ended June 28, 2008. As a percentage of net sales, operating expenses decreased from 21.0% in the six-month period ended June 30, 2007, to 20.2% in the six-month period ended June 28, 2008, reflecting greater leverage on higher sales volumes. Selling expenses increased from \$23.1 million in the six-month period ended June 30, 2007, to \$32.9 million in the six-month period ended June 28, 2008, reflecting \$9.3 million of increased costs associated with the acquired operations of Carter-Hoffmann, MP Equipment, Wells Bloomfield, Star, Giga and Frifri. General and administrative expenses increased from \$22.9 million in the six-month period ended June 30, 2007, to \$34.5 million in the six-month period ended June 28, 2008, which includes increased costs of \$8.2 million associated with the acquired operations of Carter-Hoffmann, MP Equipment, Wells Bloomfield, Star, Giga and Frifri. Increased general and administrative costs also include increased non-cash stock compensation costs which increased by \$2.2 million from the prior year six month period.

**NON-OPERATING EXPENSES.** Interest and deferred financing amortization costs increased to \$6.7 million for the six-month period ended June 28, 2008 from \$2.5 million in the prior year period, as a result of higher debt balances. Other expense was \$0.9 million for the six-month period ended June 28, 2008, which primarily consisted of foreign exchange losses, compared to other income of \$0.7 million for the six-month period ended June 30, 2007.

**INCOME TAXES.** A tax provision of \$20.5 million, at an effective rate of 40%, was recorded for the first six months of 2008 as compared to a \$14.9 million provision at a 39% effective rate in the prior year period.

**Financial Condition and Liquidity**

During the six months ended June 28, 2008, cash and cash equivalents decreased by \$0.4 million to \$7.1 million at June 28, 2008 from \$7.5 million at December 29, 2007. Net borrowings increased from \$96.2 million at December 29, 2007 to \$274.6 million at June 28, 2008.

**OPERATING ACTIVITIES.** Net cash provided by operating activities was \$43.0 million for the six-month period ended June 28, 2008 compared to \$22.4 million for the six-month period ended June 30, 2007.

During the six months ended June 28, 2008, working capital levels changed due to normal business fluctuations, including the impact of increased seasonal working capital needs. The changes in working capital included a \$9.3 million increase in accounts receivable, a \$2.3 million increase in inventory and other assets and a \$5.6 million increase in accounts payable. Prepaid and other assets decreased \$17.3 million primarily due to the utilization and refund of prepaid tax balances during the first half of 2008. Accrued expenses and other non-current liabilities also decreased by \$13.7 million, reflecting second quarter payout of customer rebates and incentive compensation in the first half of 2008 related to prior year programs.

**INVESTING ACTIVITIES.** During the six months ended June 28, 2008, net cash used in investing activities amounted to \$191.4 million. This includes cash utilized to complete the acquisitions of Star, Giga and Frifri for \$188.2 million, \$4.9 million and \$3.1 million respectively, \$1.2 million to purchase a manufacturing facility for Carter Hoffmann and \$1.5 million of capital expenditures associated with additions and upgrades of production equipment.

**FINANCING ACTIVITIES.** Net cash flows provided by financing activities were \$160.4 million during the six months ended June 28, 2008. The net increase in debt includes \$172.3 million in borrowings under the company's \$450 million revolving credit facility utilized to fund the company's investing activities and the repurchase of \$12.4 million of Middleby common shares.

At June 28, 2008, the company was in compliance with all covenants pursuant to its borrowing agreements. Management believes that future cash flows from operating activities and borrowing availability under the revolving credit facility will provide the company with sufficient financial resources to meet its anticipated requirements for working capital, capital expenditures and debt amortization for the foreseeable future.

### **Recently Issued Accounting Standards**

In December 2007, the FAS issued SFAS No. 141R, “Business Combinations”. This statement provides companies with principles and requirements on how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, liabilities assumed, and any noncontrolling interest in the acquiree as well as the recognition and measurement of goodwill acquired in a business combination. This statement also requires certain disclosures to enable users of the financial statements to evaluate the nature and financial effects of the business combination. Acquisition costs associated with the business combination will generally be expensed as incurred. This statement is effective for business combinations occurring in fiscal years beginning after December 15, 2008. Early adoption of FASB Statement No. 141R is not permitted. The company is evaluating the impact the application of this guidance will have on the company’s financial position, results of operations and cash flows. The company will adopt this statement for acquisitions consummated after the statement’s effective date.

In December 2007, the FASB issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements - an amendment of ARB No. 51”. This statement amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest (minority interest) in a subsidiary and for the deconsolidation of a subsidiary. Upon its adoption, effective as of the beginning of the company’s 2009 fiscal year, noncontrolling interests will be classified as equity in the company’s financial statements and income and comprehensive income attributed to the noncontrolling interest will be included in the company’s income and comprehensive income. The provisions of this standard must be applied retrospectively upon adoption. The company does not anticipate that the adoption of SFAS No. 160 will have a material impact on its financial statements.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities—an amendment of FASB Statement No. 133.” This statement amends SFAS No. 133 to require enhanced disclosures about an entity’s derivative and hedging activities. This Statement is effective for financial statements issued for fiscal years and interim periods beginning after November 15, 2008, with early application encouraged. The company is evaluating the impact the application of this guidance will have on the company’s financial position, results of operations and cash flows.

In May 2008, the FASB issued SFAS No. 162, “The Hierarchy of Generally Accepted Accounting Principles.” This statement identifies the sources of accounting principles and the framework for selecting the principles to be used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles (GAAP) in the United States. This statement directs the hierarchy to the entity, rather than the independent auditors, as the entity is responsible for selecting accounting principles for financial statements that are presented in conformity with generally accepted accounting principles. This statement is effective 60 days following the SEC’s approval of the Public Company Accounting Oversight Board amendments to remove the hierarchy of generally accepted accounting principles from the auditing standards. The company does not anticipate that the adoption of SFAS No. 162 will have a material impact on its financial statements.

### **Critical Accounting Policies and Estimates**

Management's discussion and analysis of financial condition and results of operations are based upon the company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the company to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses as well as related disclosures. On an ongoing basis, the company evaluates its estimates and judgments based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

*Revenue Recognition.* The company recognizes revenue on the sale of its products when risk of loss has passed to the customer, which occurs at the time of shipment, and collectibility is reasonably assured. The sale prices of the products sold are fixed and determinable at the time of shipment. Sales are reported net of sales returns, sales incentives and cash discounts based on prior experience and other quantitative and qualitative factors.

At the food processing equipment group, the company enters into long-term sales contracts for certain products. Revenue under these long-term sales contracts is recognized using the percentage of completion method prescribed by Statement of Position No. 81-1 due to the length of time to fully manufacture and assemble the equipment. The company measures revenue recognized based on the ratio of actual labor hours incurred in relation to the total estimated labor hours to be incurred related to the contract. Because estimated labor hours to complete a project are based upon forecasts using the best available information, the actual hours may differ from original estimates. The percentage of completion method of accounting for these contracts most accurately reflects the status of these uncompleted contracts in the company's financial statements and most accurately measures the matching of revenues with expenses. At the time a loss on a contract becomes known, the amount of the estimated loss is recognized in the consolidated financial statements.

*Property and equipment:* Property and equipment are depreciated or amortized on a straight-line basis over their useful lives based on management's estimates of the period over which the assets will be utilized to benefit the operations of the company. The useful lives are estimated based on historical experience with similar assets, taking into account anticipated technological or other changes. The company periodically reviews these lives relative to physical factors, economic factors and industry trends. If there are changes in the planned use of property and equipment or if technological changes were to occur more rapidly than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the recognition of increased depreciation and amortization expense in future periods.

*Long-lived assets:* Long-lived assets (including goodwill and other intangibles) are reviewed for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In assessing the recoverability of the company's long-lived assets, the company considers changes in economic conditions and makes assumptions regarding estimated future cash flows and other factors. Estimates of future cash flows are judgments based on the company's experience and knowledge of operations. These estimates can be significantly impacted by many factors including changes in global and local business and economic conditions, operating costs, inflation, competition, and consumer and demographic trends. If the company's estimates or the underlying assumptions change in the future, the company may be required to record impairment charges.

*Warranty:* 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.

*Litigation:* 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 partially 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 reserve requirements 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 pending litigation will have a material adverse effect on its financial condition or results of operations.

*Income taxes:* The company operates in numerous foreign and domestic taxing jurisdictions where it is subject to various types of tax, including sales tax and income tax. The company's tax filings are subject to audits and adjustments. Because of the nature of the company's operations, the nature of the audit items can be complex, and the objectives of the government auditors can result in a tax on the same transaction or income in more than one state or country. The company initially recognizes the financial statement effects of a tax position when it more likely than not, based on the technical merits, that the position will be sustained upon examination. For tax positions that meet the more-likely-than-not recognition threshold, the company initially and subsequently measures its tax positions as the largest amount of tax benefit that is greater than 50 percent likely of being realized upon effective settlement with the taxing authority. As part of the company's calculation of the provision for taxes, the company has recorded liabilities on various tax positions that are currently under audit by the taxing authorities. The liabilities may change in the future upon effective settlement of the tax positions.



**Contractual Obligations**

The company's contractual cash payment obligations as of June 28, 2008 are set forth below (in thousands):

|                  | Deferred<br>Acquisition<br>Costs | Long-term<br>Debt | Operating<br>Leases | Idle<br>Facility<br>Leases | Total<br>Contractual<br>Cash<br>Obligations |
|------------------|----------------------------------|-------------------|---------------------|----------------------------|---|
| Less than 1 year | \$ --                            | \$ 8,705          | \$ 2,633            | \$ 376                     | \$ 11,714                                   |
| 1-3 years        | 7,439                            | 482               | 3,104               | 808                        | 11,833                                      |
| 3-5 years        | --                               | 265,386           | 714                 | 869                        | 266,969                                     |
| After 5 years    | --                               | --                | 39                  | 912                        | 951   |
|                  | \$ 7,439                         | \$ 274,573        | \$ 6,490            | \$ 2,965                   | \$ 291,467                                  |

Idle facility leases consists of an obligation for a manufacturing location that was exited in conjunction with the company's manufacturing consolidation efforts. This lease obligation continues through June 2015. This facility has been subleased. The obligation presented above does not reflect any anticipated sublease income from the facilities.

The projected benefit obligation of the company's defined benefit plans exceeded the plans' assets by \$4.6 million at the end of 2007 as compared to \$3.5 million at the end of 2006. The unfunded benefit obligations were comprised of a \$0.6 million under funding of the company's union plan and \$4.0 million of under funding of the company's director plans. The company does not expect to contribute to the director plans in 2008. The company made minimum contributions required by the Employee Retirement Income Security Act of 1974 ("ERISA") of \$0.1 million in 2007 to the company's union plan. The company does not expect to make contributions in 2008 to the union plan.

The company has \$5.7 million in outstanding letters of credit, which expire on June 28, 2009 to secure potential obligations under insurance programs.

The company places purchase orders with its suppliers in the ordinary course of business. These purchase orders are generally to fulfill short-term manufacturing requirements of less than 90 days and most are cancelable with a restocking penalty. The company has no long-term purchase contracts or minimum purchase obligations with any supplier.

The company has contractual obligations under its various debt agreements to make interest payments. These amounts are subject to the level of borrowings in future periods and the interest rate for the applicable periods, and therefore the amounts of these payments is not determinable.

The company has an obligation to make \$2.0 million of purchase price payments to the sellers of MP Equipment that were deferred in conjunction with the acquisition. Additionally, the company has an obligation to make \$5.4 million of purchase price payments to the sellers of Giga Grandi Cucine that were deferred in conjunction with the acquisition.

The company has no activities, obligations or exposures associated with off-balance sheet arrangements.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk****Interest Rate Risk**

The company is exposed to market risk related to changes in interest rates. The following table summarizes the maturity of the company's debt obligations.

| <u>Twelve Month Period Ending</u> | <u>Fixed<br/>Rate<br/>Debt</u> | <u>Variable<br/>Rate<br/>Debt</u> |
|-----------------------------------|--------------------------------|-----------------------------------|
|                                   | (in thousands)                 |                                   |
| June 28, 2009                     | \$ --                          | \$ 8,705                          |
| June 28, 2010                     | --                             | 241                               |
| June 28, 2011                     | --                             | 241                               |
| June 28, 2012                     | --                             | 241                               |
| June 28, 2013                     | --                             | 265,145                           |
|                                   | \$ --                          | \$ 274,573                        |

During the fourth quarter of 2007 the company entered into a new senior secured credit facility. Terms of the senior credit agreement provide for \$450.0 million of availability under a revolving credit line. As of June 28, 2008, the company had \$263.6 million of borrowings outstanding under this facility. The company also has \$5.7 million in outstanding letters of credit, which reduces the borrowing availability under the revolving credit line.

Borrowings under the senior secured credit facility are assessed at an interest rate at 1.25% above LIBOR for long-term borrowings or at the higher of the Prime rate and the Federal Funds Rate. At June 28, 2008 the average interest rate on the senior debt amounted to 3.87%. 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 0.25% as of June 28, 2008.

In August 2006, the company completed its acquisition of Houno A/S in Denmark. This acquisition was funded in part with locally established debt facilities with borrowings in Danish Krone. On June 28, 2008 these facilities amounted to \$5.0 million in US dollars, including \$3.1 million outstanding under a revolving credit facility and \$2.4 million of a term loan. The interest rate on the revolving credit facility is assessed at 1.25% above Euro LIBOR, which amounted to 6.3% on June 28, 2008. The term loan matures in 2013 and the interest rate is assessed at 6.4%.

In April 2008, the company completed its acquisition of Giga Grandi Cucine S.r.l in Italy. This acquisition was funded in part with locally established debt facilities with borrowings in denominated in Euro. On June 28, 2008 these facilities amounted to \$5.8 million in US dollars. The borrowings under these facilities are collateralized by the receivables of the company. The interest rate on the credit facilities is tied to six month Euro LIBOR. The facilities mature in April of 2015.

The company has historically entered into interest rate swap agreements to effectively fix the interest rate on its outstanding debt. The agreements swap one-month LIBOR for fixed rates. As of June 28, 2008 the company had the following interest rate swaps in effect:

| <b>Notional Amount</b> | <b>Fixed Interest Rate</b> | <b>Effective Date</b> | <b>Maturity Date</b> |
|------------------------|----------------------------|-----------------------|----------------------|
| \$ 10,000,000          | 5.030%                     | 3/3/2006              | 12/21/2009           |
| \$ 10,000,000          | 2.520%                     | 2/19/2008             | 2/19/2009            |
| \$ 20,000,000          | 2.635%                     | 2/6/2008              | 2/6/2009             |
| \$ 25,000,000          | 3.350%                     | 1/14/2008             | 1/14/2010            |
| \$ 10,000,000          | 2.920%                     | 2/1/2008              | 2/1/2010             |
| \$ 10,000,000          | 2.785%                     | 2/6/2008              | 2/6/2010             |
| \$ 10,000,000          | 3.033%                     | 2/6/2008              | 2/6/2011             |
| \$ 10,000,000          | 2.820%                     | 2/1/2008              | 2/1/2009             |
| \$ 10,000,000          | 3.590%                     | 6/10/2008             | 6/10/2011            |
| \$ 20,000,000          | 3.350%                     | 6/10/2008             | 6/10/2010            |

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. The credit facility is secured by the capital stock of the company's domestic subsidiaries, 65% of the capital stock of the company's foreign subsidiaries and substantially all other assets of the company. At June 28, 2008, the company was in compliance with all covenants pursuant to its borrowing agreements.

**Financing Derivative Instruments**

The company has entered into interest rate swaps to fix the interest rate applicable to certain of its variable-rate debt. The agreements swap one-month LIBOR for a fixed rates The company has designated these swaps as cash flow hedges and all changes in fair value of the swaps are recognized in accumulated other comprehensive income. As of June 28, 2008, the fair value of these instruments was less than \$0.1 million. The change in fair value of these swap agreements in the first six months of 2008 was a gain of \$0.8 million, net of taxes.

A summary of the company's interest rate swaps is as follows:

| <b>Notional Amount</b> | <b>Fixed Interest Rate</b> | <b>Effective Date</b> | <b>Maturity Date</b> | <b>Fair Value Jun. 28, 2008</b> | <b>Changes In Fair Value (net of taxes)</b> |
|------------------------|----------------------------|-----------------------|----------------------|---------------------------------|---|
| \$ 10,000,000          | 5.030%                     | 03/03/2006            | 12/21/2009           | \$ (264,000)                    | \$ 119,000 <sup>1</sup>                     |
| \$ 10,000,000          | 2.520%                     | 2/13/2008             | 2/19/2009            | \$ 12,000                       | \$ 24,000                                   |
| \$ 20,000,000          | 2.635%                     | 2/6/2008              | 2/6/2009             | \$ 4,000                        | \$ 42,000                                   |
| \$ 25,000,000          | 3.350%                     | 1/14/2008             | 1/14/2010            | \$ (80,000)                     | \$ 230,000                                  |
| \$ 10,000,000          | 2.920%                     | 2/1/2008              | 2/1/2010             | \$ 40,000                       | \$ 88,000                                   |
| \$ 10,000,000          | 2.785%                     | 2/6/2008              | 2/6/2010             | \$ 5,000                        | \$ 32,000                                   |
| \$ 10,000,000          | 3.033%                     | 2/6/2008              | 2/6/2011             | \$ 63,000                       | \$ 86,000                                   |
| \$ 10,000,000          | 2.820%                     | 2/1/2008              | 2/1/2009             | \$ 150,000                      | \$ 150,000                                  |
| \$ 10,000,000          | 3.590%                     | 6/10/2008             | 6/10/2011            | \$ 35,000                       | \$ 21,000                                   |
| \$ 20,000,000          | 3.350%                     | 6/10/2008             | 6/10/2010            | \$ (9,000)                      | \$ (5,000)                                  |

<sup>1</sup>Previous to the fiscal quarter ended March 29, 2008, this swap had not been designated as an effective cash flow hedge. The swap was designated as an effective cash flow hedge during the quarter ended March 29, 2008. In accordance with SFAS No. 133, the net reduction of \$0.2 million in the fair value of this swap prior to the designation date has been recorded as a loss in earnings for the first quarter 2008.

**Foreign Exchange Derivative Financial Instruments**

The company uses foreign currency forward purchase and sale contracts with terms of less than one year to hedge its exposure to changes in foreign currency exchange rates. The company's primary hedging activities are to mitigate its exposure to changes in exchange rates on intercompany and third party trade receivables and payables. The company does not currently enter into derivative financial instruments for speculative purposes. In managing its foreign currency exposures, the company identifies and aggregates naturally occurring offsetting positions and then hedges residual balance sheet exposures. There was no forward contracts outstanding at the end of the quarter.

**Item 4. Controls and Procedures**

The company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of June 28, 2008, the company carried out an evaluation, under the supervision and with the participation of the company's management, including the company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of the company's disclosure controls and procedures. Based on the foregoing, the company's Chief Executive Officer and Chief Financial Officer concluded that the company's disclosure controls and procedures were effective as of the end of this period.

During the quarter ended June 28, 2008, there has been no change in the company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

**PART II. OTHER INFORMATION**

The company was not required to report the information pursuant to Items 1 through 6 of Part II of Form 10-Q for the three months ended June 28, 2008, except as follows:

**Item 1A. Risk Factors**

There have been no material changes in the risk factors as set forth in the company's 2007 Annual Report on Form 10-K/A.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds***Issuer Purchases of Equity Securities*

|                                  | Total Number<br>of Shares<br>Purchased | Average<br>Price Paid<br>per Share | Total Number<br>of Shares<br>Purchased as<br>Part of<br>Publicly<br>Announced<br>Plan or<br>Program | Maximum<br>Number of<br>Shares that<br>May Yet be<br>Purchased<br>Under the Plan<br>or Program |
|----------------------------------|--|------------------------------------|---|--|
| March 30, 2008 to April 26, 2008 | --                                     | --                                 | —   | 842,132  |
| April 27, 2008 to May 24, 2008   | --                                     | --                                 | --  | 842,132  |
| May 25, 2008 to June 28, 2008    | 210,000                                | --                                 | 210,000   | 632,132  |
| Quarter ended June 28, 2008      | 210,000                                | --                                 | 210,000   | 632,132  |

In July 1998, the company's Board of Directors adopted a stock repurchase program that authorized the purchase of common shares in open market purchases. As of June 28, 2008, 1,167,868 shares had been purchased under the 1998 stock repurchase program. 210,000 shares were repurchased by the company during the three month period ended June 28, 2008.

**Item 6. Exhibits**

Exhibits - The following exhibits are filed herewith:

|                |   |
|----------------|---|
| Exhibit 31.1 - | Rule 13a-14(a)/15d -14(a) Certification of the Chief Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| Exhibit 31.2 - | Rule 13a-14(a)/15d -14(a) Certification of the Chief Financial Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.  |
| Exhibit 32.1 - | Certification by the Principal Executive Officer of The Middleby Corporation Pursuant to Rule 13A-14(b) under the Exchange Act and Section 906 of the Sarbanes-Oxley Act of 2002(18 U.S.C. 1350). |
| Exhibit 32.2 - | Certification by the Principal Financial Officer of The Middleby Corporation Pursuant to Rule 13A-14(b) under the Exchange Act and Section 906 of the Sarbanes-Oxley Act of 2002(18 U.S.C. 1350). |



**SIGNATURE**

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

**THE MIDDLEBY CORPORATION**  
(Registrant)

Date August 7, 2008

By: /s/ Timothy J. FitzGerald

---

Timothy J. FitzGerald  
Vice President,  
Chief Financial Officer