MIDDLEBY CORP
Form 10-Q
November 08, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 29, 2012
or
o Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File No. 1-9973

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

Delaware	36-3352497
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

1400 Toastmaster Drive, Elgin, Illinois	60120
(Address of Principal Executive Offices)	(Zip Code)
Registrant's Telephone No., including Area Code	(847) 741-3300

Indicate by check mark whether the registrant: (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No o

Indicate by check mark whether the Registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No o

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See the definitions of "accelerated filer, large accelerated filer and smaller reporting company" in Rule 12b-2 of the Exchange Act.
Large accelerated filer x Accelerated filer o Non-accelerated filer o Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

As of November 2, 2012 there were 18,738,580 shares of the registrant's common stock outstanding.

THE MIDDLEBY CORPORATION AND SUBSIDIARIES

QUARTER ENDED September 29, 2012

INDEX

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

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

ASSETS	Sep 29, 2012	Dec 31, 2011
Current assets:		
Cash and cash equivalents	$35,105	$40,216
Accounts receivable, net of reserve for doubtful accounts of $7,347 and $6,878	145,109	151,441
Inventories, net	147,021	124,300
Prepaid expenses and other	20,200	12,336
Current deferred taxes	37,119	39,090
Total current assets	384,554	367,383
Property, plant and equipment, net of accumulated depreciation of $60,443 and $54,014	64,042	62,507
Goodwill	505,183	477,812
Other intangibles	230,062	234,726
Other assets	10,161	4,084
Total assets	$1,194,002	$1,146,512
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$3,409	$315,831
Accounts payable	74,101	63,394
Accrued expenses	155,862	170,392
Total current liabilities	233,372	549,617
Long-term debt	265,905	1,504
Long-term deferred tax liability	36,820	37,845
Other non-current liabilities	51,722	46,577
Stockholders' equity:		
Preferred stock, $0.01 par value; nonvoting; 2,000,000 shares authorized; none issued	—	—
Common stock, $0.01 par value; 47,500,000 shares authorized; 23,337,661 and 23,093,338 shares issued in 2012 and 2011, respectively	140	137
Paid-in capital	225,876	202,321
Treasury stock at cost; 4,599,081 and 4,437,428 shares in 2012 and 2011, respectively	(142,667)	(126,682)
Retained earnings	538,635	455,727
Accumulated other comprehensive loss	(15,801)	(20,534)
Total stockholders' equity	606,183	510,969
Total liabilities and stockholders' equity	$1,194,002	$1,146,512

See accompanying notes

1

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

	Three Months Ended		Nine Months Ended	
	Sep 29, 2012	Oct 1, 2011	Sep 29, 2012	Oct 1, 2011
Net sales	$257,699	$218,720	$746,562	$612,147
Cost of sales	157,254	131,402	456,818	367,662
Gross profit	100,445	87,318	289,744	244,485
Selling and distribution expenses	25,965	24,555	79,414	66,692
General and administrative expenses	27,051	25,577	80,903	73,995
Income from operations	47,429	37,186	129,427	103,798
Net interest expense and deferred financing amortization, net	2,988	2,324	7,046	6,503
Other expense (income), net	2,765	(424)	3,652	1,022
Earnings before income taxes	41,676	35,286	118,729	96,273
Provision for income taxes	11,907	11,825	35,820	35,359
Net earnings	$29,769	$23,461	$82,909	$60,914
Net earnings per share:				
Basic	$1.63	$1.30	$4.55	$3.38
Diluted	$1.60	$1.26	$4.47	$3.29
Weighted average number of shares				
Basic	18,296	18,040	18,237	17,998
Dilutive common stock equivalents[1]	284	540	302	537
Diluted	18,580	18,580	18,539	18,535
Comprehensive income	$35,956	$11,881	$87,642	$50,980

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

See accompanying notes

2

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

	Nine Months Ended	
	Sep 29, 2012	Oct 1, 2011
Cash flows from operating activities--		
Net earnings	$82,909	$60,914
Adjustments to reconcile net earnings to net cash provided by operating activities--		
Depreciation and amortization	20,690	14,667
Non-cash share-based compensation	9,009	12,776
Deferred taxes	868	(900)
Unrealized loss on derivative financial instruments	18	19
Changes in assets and liabilities, net of acquisitions		
Accounts receivable, net	12,569	(11,741)
Inventories, net	(14,342)	(8,987)
Prepaid expenses and other assets	(9,150)	2,264
Accounts payable	8,163	(9,325)
Accrued expenses and other liabilities	(16,740)	5,994
Net cash provided by operating activities	93,994	65,681
Cash flows from investing activities--		
Additions to property and equipment	(5,963)	(4,880)
Acquisition of Giga	—	(1,603)
Acquisition of Cooktek	(335)	(86)
Acquisition of Danfotech, net of cash acquired	361	(6,111)
Acquisition of Cozzini, net of cash acquired	—	(2,000)
Acquisition of Beech, net of cash acquired	—	(12,959)
Acquisition of Lincat, net of cash acquired	—	(82,130)
Acquisition of Maurer	—	(3,847)
Acquisition of Auto-Bake, net of cash acquired	—	(22,524)
Acquisition of Drake, net of cash acquired	(403)	—
Acquisition of Baker	(10,250)	—
Acquisition of Stewart	(28,000)	—
Net cash used in investing activities	(44,590)	(136,140)
Cash flows from financing activities--		
Net proceeds under current revolving credit facilities	264,500	—
Net (repayments) proceeds under previous revolving credit facilities	(309,400)	88,000
Net (repayments) proceeds under foreign bank loan	(3,109)	1,492
Repurchase of treasury stock	(15,985)	(13,031)
Debt issuance costs	(5,475)	(373)
Excess tax benefit related to share-based compensation	12,509	—
Net proceeds from stock issuances	2,039	224
Net cash (used in) provided by financing activities	(54,921)	76,312
Effect of exchange rates on cash and cash equivalents	$406	$(93)
Changes in cash and cash equivalents--		
Net (decrease) increase in cash and cash equivalents	(5,111)	5,760
Cash and cash equivalents at beginning of year	40,216	7,656
Cash and cash equivalents at end of period	$35,105	$13,416

See accompanying notes

THE MIDDLEBY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
September 29, 2012
(Unaudited)

1) Summary of Significant Accounting Policies

A) Basis of Presentation

The condensed consolidated financial statements have been prepared by The Middleby Corporation (the "company" or “Middleby”), pursuant to the rules and regulations of the Securities and Exchange Commission. The financial statements are unaudited and certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the company believes that the disclosures are adequate to make the information not misleading. These financial statements should be read in conjunction with the financial statements and related notes contained in the company's 2011 Form 10-K. The company’s interim results are not necessarily indicative of future full year results for the fiscal year 2012.

During the third quarter of 2012, the company voluntarily changed the date of its required goodwill and indefinite-lived intangible asset impairment testing from the last day of the fourth quarter to the first day of the fourth quarter. This voluntary change in accounting principle allows the company additional time to complete its annual goodwill and indefinite-lived intangible asset impairment testing in advance of its year-end reporting and results in better alignment with the company's strategic planning and forecasting process. This change did not delay, accelerate or avoid an impairment charge.

Accordingly, the company believes that this accounting change is preferable in its circumstances. This change constitutes a change in accounting principle under Accounting Standards Codification ("ASC") 250 "Accounting Changes and Error Corrections," and had no impact on the company's consolidated balance sheet, statement of operations or cash flows. This change is not applied retrospectively as it is impracticable to do so because retrospective application would require the application of significant estimates and assumptions with the use of hindsight. Accordingly, the change will be applied prospectively.
In the opinion of management, the financial statements contain all adjustments necessary to present fairly the financial position of the company as of September 29, 2012 and December 31, 2011, and the results of operations for the three and nine months ended September 29, 2012 and October 1, 2011 and cash flows for the nine months ended September 29, 2012 and October 1, 2011.

Use of Estimates

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

B) Non-Cash Share-Based Compensation

The company estimates the fair value of market-based stock awards and stock options at the time of grant and recognizes compensation cost over the vesting period of the awards and options. Non-cash share-based compensation expense was $3.1 million and $5.5 million for the third quarter periods ended September 29, 2012 and October 1, 2011, respectively. Non-cash share-based compensation expense was $9.0 million and $12.8 million for the nine month periods ended September 29, 2012 and October 1, 2011, respectively.

C) Income Taxes

The tax provision for the three and nine month periods ended September 29, 2012 reflects favorable reassessment of certain U.S. state tax exposures, lower effective tax rate on increased income in lower tax rate foreign jurisdictions and net tax benefit from certain deductions related to U.S. manufacturing activities.

As of December 31, 2011, the total amount of liability for unrecognized tax benefits related to federal, state and foreign taxes was approximately $15.6 million (of which $14.1 million would impact the effective tax rate if recognized) plus approximately $1.9 million of accrued interest and $2.0 million of penalties. The company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. Interest of $0.1 million was recognized in the third quarter of 2012 and 2011, respectively. Penalties of $0.2 million and $0.1 million were recognized in the third quarter of 2012 and 2011, respectively. In the first nine months ended September 29, 2012, the company recognized a benefit of $4.1 million for unrecognized tax benefits related to reduced tax exposures.

It is reasonably possible that the amounts of unrecognized tax benefits associated with state, federal and foreign tax positions may decrease over the next twelve months due to expiration of a statute or completion of an audit. The company believes that it is reasonably possible that approximately $0.1 million of its currently remaining unrecognized tax benefits may be recognized over the next twelve months as a result of lapses of statutes of limitations.

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

United States - federal	2008 – 2011
United States - states	2004 – 2011
Australia	2011
Brazil	2010 – 2011
Canada	2009 – 2011
China	2003 – 2011
Denmark	2009 – 2011
France	2011
Germany	2011
Italy	2009 – 2011
Luxembourg	2011
Mexico	2007 – 2011
Philippines	2008 – 2011
South Korea	2006 – 2011
Spain	2008 – 2011
Taiwan	2008 – 2011
United Kingdom	2008 – 2011

D) Fair Value Measures

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

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

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

Level 3 – Unobservable inputs based on our own assumptions.

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

	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Total
As of September 29, 2012				
Financial Assets:				
Pension plans	$21,966	$1,538	—	$23,504
Financial Liabilities:				
Interest rate swaps	—	$3,318	—	$3,318
Contingent consideration	—	—	$5,845	$