

MIDDLEBY CORP
Form 10-Q
November 07, 2013

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 September 28, 2013

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)

Registrant's Telephone No., including Area Code

60120

(Zip 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 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 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 the definitions 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 November 1, 2013 there were 19,119,162 shares of the registrant's common stock outstanding.

THE MIDDLEBY CORPORATION AND SUBSIDIARIES

QUARTER ENDED September 28, 2013

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

THE MIDDLEBY CORPORATION AND SUBSIDIARIES

CONDENSED CONSOLIDATED BALANCE SHEETS

(In Thousands, Except Share Data)

(Unaudited)

ASSETS	Sep 28, 2013	Dec 29, 2012
Current assets:		
Cash and cash equivalents	\$29,355	\$34,366
Accounts receivable, net of reserve for doubtful accounts of \$7,480 and \$6,377	195,477	162,230
Inventories, net	209,758	153,490
Prepaid expenses and other	31,832	19,151
Prepaid taxes	3,323	—
Current deferred taxes	44,403	43,365
Total current assets	514,148	412,602
Property, plant and equipment, net of accumulated depreciation of \$73,892 and \$63,974	117,739	63,886
Goodwill	635,718	526,011
Other intangibles	419,951	233,341
Other assets	12,932	8,440
Total assets	\$1,700,488	\$1,244,280
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$778	\$1,850
Accounts payable	94,557	69,653
Accrued expenses	187,198	170,932
Total current liabilities	282,533	242,435
Long-term debt	536,608	258,220
Long-term deferred tax liability	45,065	44,838
Other non-current liabilities	54,779	48,760
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; 23,777,203 and 23,438,287 shares issued in 2013 and 2012, respectively	144	141
Paid-in capital	264,897	233,213
Treasury stock, at cost; 4,658,041 and 4,635,315 shares in 2013 and 2012, respectively	(150,938)	(147,352)
Retained earnings	680,431	576,424
Accumulated other comprehensive loss	(13,031)	(12,399)
Total stockholders' equity	781,503	650,027
Total liabilities and stockholders' equity	\$1,700,488	\$1,244,280

See accompanying notes

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

	Three Months Ended		Nine Months Ended	
	Sep 28, 2013	Sep 29, 2012	Sep 28, 2013	Sep 29, 2012
Net sales	\$360,013	\$257,699	\$1,051,265	\$746,562
Cost of sales	218,575	157,254	651,985	456,818
Gross profit	141,438	100,445	399,280	289,744
Selling and distribution expenses	41,769	25,965	116,559	79,414
General and administrative expenses	32,181	27,051	112,713	80,903
Income from operations	67,488	47,429	170,008	129,427
Net interest expense and deferred financing amortization, net	4,249	2,988	11,729	7,046
Other expense (income), net	1,394	2,765	1,998	3,652
Earnings before income taxes	61,845	41,676	156,281	118,729
Provision for income taxes	20,903	11,907	52,274	35,820
Net earnings	\$40,942	\$29,769	\$104,007	\$82,909
Net earnings per share:				
Basic	\$2.19	\$1.63	\$5.60	\$4.55
Diluted	\$2.18	\$1.60	\$5.58	\$4.47
Weighted average number of shares				
Basic	18,726	18,296	18,569	18,237
Dilutive common stock equivalents ¹	16	284	86	302
Diluted	18,742	18,580	18,655	18,539
Comprehensive income	\$47,123	\$35,956	\$103,375	\$87,642

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

See accompanying notes

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THE MIDDLEBY CORPORATION AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In Thousands)

(Unaudited)

	Nine Months Ended	
	Sep 28, 2013	Sep 29, 2012
Cash flows from operating activities--		
Net earnings	\$ 104,007	\$ 82,909
Adjustments to reconcile net earnings to net cash provided by operating activities--		
Depreciation and amortization	35,017	20,690
Non-cash share-based compensation	8,895	9,009
Deferred taxes	2,507	868
Unrealized (gain) loss on derivative financial instruments	(27	) 18
Changes in assets and liabilities, net of acquisitions		
Accounts receivable, net	(13,285	) 12,569
Inventories, net	(18,758	) (14,342
Prepaid expenses and other assets	(13,801	) (9,150
Accounts payable	(5,419	) 8,163
Accrued expenses and other liabilities	(15,551	) (16,740
Net cash provided by operating activities	83,585	93,994
Cash flows from investing activities--		
Additions to property and equipment	(11,056	) (5,963
Sale of asset	7,000	—
Purchase of trade name	(5,000) —
Acquisition of CookTek	(817	) (335
Acquisition of Danfotech	—	361
Acquisition of Baker	—	(10,250
Acquisition of Stewart	1,303	(28,000
Acquisition of Drake	—	(403
Acquisition of Viking, net of cash acquired	(361,731) —
Acquisition of Distributors	(14,916) —
Net cash used in investing activities	(385,217	) (44,590
Cash flows from financing activities--		
Net proceeds under current revolving credit facilities	278,500	264,500
Net repayments under previous revolving credit facilities	—	(309,400
Net repayments under foreign bank loan	(1,208	) (3,109
Net repayments under other debt arrangement	(23) —
Repurchase of treasury stock	(3,586	) (15,985
Debt issuance costs	—	(5,475
Excess tax benefit related to share-based compensation	19,194	12,509
Net proceeds from stock issuances	3,599	2,039
Net cash provided by (used in) financing activities	296,476	(54,921
Effect of exchange rates on cash and cash equivalents	145	406
Changes in cash and cash equivalents--		
Net decrease in cash and cash equivalents	(5,011	) (5,111
Cash and cash equivalents at beginning of year	34,366	40,216
Cash and cash equivalents at end of period	\$ 29,355	\$ 35,105

See accompanying notes

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THE MIDDLEBY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 28, 2013

(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 2012 Form 10-K. The company's interim results are not necessarily indicative of future full year results for the fiscal year 2013.

In the opinion of management, the financial statements contain all adjustments necessary to present fairly the financial position of the company as of September 28, 2013 and December 29, 2012, and the results of operations for the three and nine months ended September 28, 2013 and September 29, 2012 and cash flows for the nine months ended September 28, 2013 and September 29, 2012.

Use of Estimates

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

B) Non-Cash Share-Based Compensation

The company estimates the fair value of market-based stock awards and stock options at the time of grant and recognizes compensation cost over the vesting period of the awards and options. Non-cash share-based compensation expense was \$3.0 million and \$3.1 million for the third quarter periods ended September 28, 2013 and September 29, 2012, respectively. Non-cash share-based compensation expense was \$8.9 million and \$9.0 million for the nine month periods ended September 28, 2013 and September 29, 2012, respectively.

C) Income Taxes

As of December 29, 2012, the total amount of liability for unrecognized tax benefits related to federal, state and foreign taxes was approximately \$12.1 million (of which \$10.4 million would impact the effective tax rate if recognized) plus approximately \$1.6 million of accrued interest and \$1.6 million of penalties. The company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. As of September 28, 2013, the company recognized a tax expense of \$1.5 million for unrecognized tax benefits related to current year tax exposures.

It is reasonably possible that the amounts of unrecognized tax benefits associated with state, federal and foreign tax positions may decrease over the next twelve months due to expiration of a statute or completion of an audit. The company believes that it is reasonably possible that approximately \$0.2 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 – 2012
United States - states	2004 – 2012
Australia	2011 – 2012
Brazil	2010 – 2012
Canada	2009 – 2012
China	2003 – 2012
Denmark	2009 – 2012
France	2011 – 2012
Germany	2011 – 2012
Italy	2009 – 2012
Luxembourg	2011 – 2012
Mexico	2007 – 2012
Philippines	2009 – 2012
South Korea	2007 – 2012
Spain	2008 – 2012
Taiwan	2008 – 2012
United Kingdom	2009 – 2012

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 28, 2013				
Financial Assets:				
Pension plans	\$24,889	\$1,062	\$—	\$25,951
Financial Liabilities:				
Interest rate swaps	\$—	\$1,909	\$—	\$1,909
Contingent consideration	\$—		\$10,059	\$10,059
As of December 29, 2012				
Financial Assets:				
Pension plans	\$24,346	\$935	\$—	\$25,281
Financial Liabilities:				
Interest rate swaps	\$—	\$2,853	\$—	\$2,853
Contingent consideration	\$—	\$—	\$8,609	\$8,609

The contingent consideration at September 28, 2013 relates to the earnout provisions recorded in conjunction with the acquisitions of Stewart, Nieco and Spooner Vicars.

E) Consolidated Statements of Cash Flows

Cash paid for interest was \$10.8 million and \$5.8 million for the nine months ended September 28, 2013 and September 29, 2012, respectively. Cash payments totaling \$28.1 million and \$32.4 million were made for income taxes for the nine months ended September 28, 2013 and September 29, 2012, respectively.

2) Acquisitions and Purchase Accounting

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

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

Drake

On December 2, 2011, the company completed its acquisition of all of the capital stock of the F.R. Drake Company ("Drake"), a manufacturer of automated loading systems for the food processing industry for a purchase price of approximately \$21.7 million, net of cash acquired. During the second quarter of 2012, the company finalized the working capital provision provided for by the purchase agreement resulting in an additional payment to the seller of \$0.4 million.

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

	(as initially reported) Dec 2, 2011	Measurement Period Adjustments	(as adjusted) Dec 2, 2011
Cash	\$427	\$—	\$427
Deferred tax asset	390	56	446
Current assets	4,245	(213	) 4,032
Property, plant and equipment	1,773	—	1,773
Goodwill	15,237	474	15,711
Other intangibles	5,810	—	5,810
Other assets	9	—	9
Current liabilities	(3,334	) 54	(3,280
Long-term deferred tax liability	(2,395	) 32	(2,363
Net assets acquired and liabilities assumed	\$22,162	\$403	\$22,565

The current deferred tax asset and long term deferred tax liability amounted to \$0.4 million and \$2.4 million, respectively. The current deferred tax asset represents \$0.4 million of assets arising from the difference between the book and tax basis of tangible asset and liability accounts. The net long term deferred tax liability is comprised of \$0.1 million arising from the difference between the book and tax basis of tangible assets and liability accounts and \$2.3 million related to the difference between the book and tax basis of identifiable intangible assets.

The goodwill and \$3.2 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350 "Intangibles-Goodwill and Other". Other intangibles also includes \$2.5 million allocated to customer relationships and \$0.1 million allocated to backlog, which are being amortized over periods of 5 years and 1 month, respectively. Goodwill and other intangibles of Drake are allocated to the Food Processing Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

Armor Inox

On December 21, 2011, the company completed its acquisition of all of the capital stock of Armor Inox, S.A., together with its subsidiaries Armor Inox Production S.a.r.l and Armor Inox UK Ltd (collectively "Armor Inox"), a manufacturer of thermal processing systems for the food processing industry for a purchase price of approximately \$28.7 million, net of cash acquired.

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

	(as initially reported) Dec 21, 2011	Measurement Period Adjustments	(as adjusted) Dec 21, 2011	
Cash	\$18,201	\$—	\$18,201	
Current assets	14,612	(958	) 13,654	
Property, plant and equipment	941	630	1,571	
Goodwill	23,789	2,346	26,135	
Other intangibles	12,155	(2,735	) 9,420	
Other assets	25	—	25	
Current liabilities	(18,440	) (186	) (18,626)
Long-term deferred tax liability	(3,975	) 903	(3,072)
Other non-current liabilities	(450	) —	(450)
Net assets acquired and liabilities assumed	\$46,858	\$—	\$46,858	

The goodwill and \$3.4 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also includes \$1.1 million allocated to customer relationships, \$1.1 million allocated to developed technology and \$3.8 million allocated to backlog, which are being amortized over periods of 6 years, 7 years and 2 years, respectively. Goodwill and other intangibles of Armor Inox are allocated to the Food Processing Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

Baker

On March 14, 2012, the company completed its acquisition of certain assets of Turkington USA, LLC (now known as Baker Thermal Solutions "Baker"), a manufacturer of automated baking ovens for the food processing industry, for a purchase price of approximately \$10.3 million.

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

	(as initially reported) Mar 14, 2012	Measurement Period Adjustments	(as adjusted) Mar 14, 2012	
Current assets	\$4,617	\$(2,236	) \$2,381
Property, plant and equipment	221	—	221	
Goodwill	5,797	1,481	7,278	
Other intangibles	—	750	750	
Current liabilities	(385) 5	(380)
Net assets acquired and liabilities assumed	\$10,250	\$—	\$10,250	

The goodwill is subject to the non-amortization provisions of ASC 350. Other intangibles includes \$0.8 million allocated to customer relationships, which are being amortized over 5 years. Goodwill of Baker is allocated to the Food Processing Equipment Group for segment reporting purposes. These assets are expected to be deductible for tax purposes.

Stewart

On September 5, 2012, the company completed its acquisition of certain assets of Stewart Systems Global, LLC ("Stewart"), a manufacturer of automated proofing and oven baking systems for the food processing industry, for a purchase price of approximately \$27.8 million. An additional payment is also payable upon the achievement of certain financial targets. During the second quarter of 2013, the company finalized the working capital provision provided by the purchase agreement resulting in a refund from the seller of \$1.3 million. Subsequent to the acquisition of Stewart, the company purchased intangible assets from a third party company previously associated with Stewart. These assets consist of the trade name, Spooner Vicars and have been allocated to Stewart.

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

	(as initially reported) Sep 5, 2012	Preliminary Measurement Period Adjustments	(as adjusted) Sep 5, 2012	
Cash	\$—	\$244	\$244	
Current assets	11,839	(1,922	) 9,917
Property, plant and equipment	653	583	1,236	
Goodwill	17,886	(2,140	) 15,746
Other intangibles	6,850	4,030	10,880	
Current liabilities	(5,228) (1,511) (6,739)
Other non-current liabilities	(4,000) (587) (4,587)
Consideration paid at closing	\$28,000	\$(1,303	) \$26,697
Contingent consideration	4,000	587	4,587	
Net assets acquired and liabilities assumed	\$32,000	\$(716	) \$31,284

The goodwill and \$4.6 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also includes \$5.9 million allocated to customer relationships and \$0.4 million allocated to backlog, which are being amortized over periods of 5 years and 6 months, respectively. Goodwill and other intangibles of Stewart are allocated to the Food Processing Equipment Group for segment reporting purposes. These assets are expected to be deductible for tax purposes.

The Stewart purchase agreement includes an earnout provision providing for a contingent payment due the sellers to the extent certain financial targets are exceeded. This earnout is payable within the first quarters of 2014 and 2015, respectively, if Stewart exceeds certain sales and earnings targets for fiscal 2013 and 2014. The contractual obligation associated with the contingent earnout provision recognized on the acquisition date is \$4.6 million.

Nieco

On October 31, 2012, the company completed its acquisition of Nieco Corporation, ("Nieco"), a leading manufacturer of automated broilers for the commercial foodservice industry, for a purchase price of approximately \$23.9 million. An additional payment is also payable upon the achievement of certain financial targets. During the second quarter of 2013, the company finalized the working capital provision provided by the purchase agreement resulting in no adjustment to the original purchase price.

The following estimated fair values of assets acquired and liabilities assumed are provisional and are based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed (in thousands):

	(as initially reported) Oct 31, 2012	Preliminary Measurement Period Adjustments	(as adjusted) Oct 31, 2012	
Cash	\$ 140	\$—	\$ 140	
Current assets	4,011	—	4,011	
Property, plant and equipment	268	—	268	
Goodwill	18,855	(3,473	) 15,382
Other intangibles	5,620	4,060	9,680	
Current liabilities	(1,836) —	(1,836)
Other non-current liabilities	(3,058) (587) (3,645)
Consideration paid at closing	\$ 24,000	\$—	\$ 24,000	
Contingent consideration	3,058	587	3,645	
Net assets acquired and liabilities assumed	\$ 27,058	\$ 587	\$ 27,645	

The goodwill and \$3.1 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also includes \$6.5 million allocated to customer relationships and \$0.1 million allocated to backlog, which are being amortized over periods of 4 years and 3 months, respectively. Goodwill and other intangibles of Nieco are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are expected to be deductible for tax purposes.

The company believes that information gathered to date provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed but the company is waiting for additional information necessary to finalize those fair values. Thus, the provisional measurements of fair value set forth above are subject to change. The company expects to complete the purchase price allocation as soon as practicable but no later than one year from the acquisition date.

The Nieco purchase agreement includes an earnout provision providing for a contingent payment due the sellers to the extent certain financial targets are exceeded. This earnout is payable within the first quarters of 2014 and 2015, respectively, if Nieco exceeds certain sales and earnings targets for fiscal 2013 and 2014. The contractual obligation associated with the contingent earnout provision recognized on the acquisition date is \$3.6 million.

Viking

On December 31, 2012 (subsequent to the 2012 fiscal year end), the company completed its acquisition of Viking Range Corporation, ("Viking"), a leading manufacturer of kitchen equipment for the residential market, for a purchase price of approximately \$373.0 million, net of cash acquired. During the third quarter of 2013, the company finalized the working capital provision provided by the purchase agreement resulting in a return from the seller of \$11.2 million.

The following estimated fair values of assets acquired and liabilities assumed are provisional and are based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed (in thousands):

	(as initially reported) Dec 31, 2012	Preliminary Measurement Period Adjustments	(as adjusted) Dec 31, 2012	
Cash	\$6,900	\$(121	) \$6,779
Current assets	40,794	—	40,794	
Property, plant and equipment	76,693	(23,208	) 53,485
Goodwill	144,833	(32,671	) 112,162
Other intangibles	152,500	44,500	197,000	
Other assets	12,604	45	12,649	
Current liabilities	(52,202) 230	(51,972)
Other non-current liabilities	(2,386) (1) (2,387)
Net assets acquired and liabilities assumed	\$379,736	\$(11,226	) \$368,510

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

The company believes that information gathered to date provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed but the company is waiting for additional information necessary to finalize those fair values. Thus, the provisional measurements of fair value set forth above are subject to change. The company expects to complete the purchase price allocation as soon as practicable but no later than one year from the acquisition date.

Results of Operations

The following unaudited results of operations for the three and nine months ended September 28, 2013 and September 29, 2012, reflect the operations of Viking on a stand-alone basis (in thousands):

	Three Months Ended		Nine Months Ended		
	Sep 28, 2013	Sep 29, 2012	Sep 28, 2013	Sep 29, 2012	
Net sales	\$57,997	53,865	\$175,471	\$159,368	
Income (loss) from operations	\$8,498	(17,598) \$5,173	\$(15,636)

Pro forma financial information

In accordance with ASC 805 “Business Combinations”, the following unaudited pro forma results of operations for the quarter and nine months ended September 29, 2012, assumes the 2013 acquisition of Viking was completed on January 1, 2012. The following 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 (in thousands, except per share data):

	Three Months Ended Sep 29, 2012	Nine Months Ended Sep 29, 2012
Net sales	\$316,332	\$920,232
Net earnings	\$16,107	\$70,217
Net earnings per share:		
Basic	\$0.88	\$3.85
Diluted	\$0.87	\$3.79

The supplemental pro forma financial information presented above has been prepared for comparative purposes and is not necessarily indicative of either the results of operations that would have occurred had the acquisition of Viking been effective on January 1, 2012 nor are they indicative of any future results. Also, the pro forma financial information does not reflect the costs which the company has incurred or may incur to integrate Viking. Excluding Viking, other acquisitions were not material to the pro forma information provided.

Distributors

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

The following estimated fair values of assets acquired and liabilities assumed are provisional and are based on the information that was available as of the acquisition dates to estimate the fair value of assets acquired and liabilities assumed (in thousands):

	(as initially reported) Jun 29, 2013	Preliminary Measurement Period Adjustments	(as adjusted) Jun 29, 2013
Current assets	\$21,390	\$(1,218	) \$20,172
Property, plant and equipment	1,318	—	1,318
Goodwill	1,709	1,218	2,927
Current liabilities	(804	) —	(804)
Net assets acquired and liabilities assumed	\$23,613	\$—	\$23,613
Forgiveness of liabilities owed to Viking	(8,697	) —	(8,697)
Consideration paid at closing	\$14,916	\$—	\$14,916

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

The company believes that information gathered to date provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed but the company is waiting for additional information necessary to finalize those fair values. Thus, the provisional measurements of fair value set forth above are subject to change. The company expects to complete the purchase price allocation as soon as practicable but no later than one year from the acquisition dates.

3)Litigation Matters

From time to time, the company is subject to proceedings, lawsuits and other claims related to products, suppliers, employees, customers and competitors. The company maintains insurance to 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 accrual 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 effect on its financial condition, results of operations or cash flows.

4)Recently Issued Accounting Standards

On July 27, 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2012-02, "Intangibles - Goodwill and Other (Topic 350)". ASU-2012-02 allows an entity the option to make a qualitative evaluation to determine whether the existence of events and circumstances indicate that it is more likely than not the indefinite-lived intangible asset is impaired thus requiring the entity to perform quantitative impairment tests in accordance with ASC 350-30. The ASU also amends previous guidance by expanding upon the examples of events and circumstances that an entity should consider when making the qualitative evaluation. The adoption of this guidance did not have an impact on the company's financial position, results of operations or cash flows.

In January 2013, the FASB issued ASU No. 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities". This update provides clarification on the disclosure requirements related to recognized derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and lending transactions. This update is effective for annual reporting periods and corresponding interim periods beginning on or after January 1, 2013, and retrospective application is required. The company is currently evaluating the impact of the adoption of ASU No. 2013-01 on its financial position, results of operations and cash flows.

In March 2013, the FASB issued ASU No. 2013-02, "Comprehensive Income - Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income". ASU No. 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. Additionally, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The guidance does not change the items reported in other comprehensive income or when an item of other comprehensive income is reclassified to net income. The company adopted the provisions of ASU No. 2013-02 on December 30, 2012. As this guidance only revises the presentation of comprehensive income, there was no impact to the company's financial position, results of operations or cash flows.

5) Other Comprehensive Income

The company reports changes in equity during a period, except those resulting from investments by owners and distributions to owners, in accordance with ASC 220, "Comprehensive Income."

Changes in accumulated other comprehensive income(1) were as follows (in thousands):

	Currency Translation Adjustment	Pension Benefit Costs	Unrealized Gain/(Loss) Interest Rate Swap	Total
Beginning balance	\$(5,355)	\$(5,597)	\$(1,447)	\$(12,399)
Other comprehensive income before reclassification	(1,406)	224	598	(584)
Amounts reclassified from accumulated other comprehensive income	—	—	(48)	(48)
Net current-period other comprehensive income	\$(1,406)	\$224	\$550	\$(632)
Ending balance	\$(6,761)	\$(5,373)	\$(897)	\$(13,031)

(1) All amounts are net of tax.

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

	Three Months Ended		Nine Months Ended	
	Sep 28, 2013	Sep 29, 2012	Sep 28, 2013	Sep 29, 2012
Net earnings	\$40,942	\$29,769	\$104,007	\$82,909
Currency translation adjustment	6,559	6,042	(1,406)	4,500
Pension liability adjustment, net of tax	(16)	130	224	271
Unrealized gain on interest rate swaps, net of tax	(362)	15	550	(38)
Comprehensive income	\$47,123	\$35,956	\$103,375	\$87,642

6) Inventories

Inventories are composed of material, labor and overhead and are stated at the lower of cost or market. Costs for inventories 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 \$21.5 million at September 28, 2013 and \$22.2 million at December 29, 2012 and represented approximately 10.2% and 14.5% of the total inventory at each respective period. The amount of LIFO reserve at September 28, 2013 and December 29, 2012 was not material. Costs for all other inventory have been determined using the first-in, first-out ("FIFO") method. The company estimates reserves for inventory obsolescence and shrinkage based on its judgment of future realization. Inventories at September 28, 2013 and December 29, 2012 are as follows:

	Sep 28, 2013 (in thousands)	Dec 29, 2012
Raw materials and parts	\$111,752	\$87,184
Work-in-process	21,420	18,957
Finished goods	76,586	47,349
	\$209,758	\$153,490

7) Goodwill

Changes in the carrying amount of goodwill for the nine months ended September 28, 2013 are as follows (in thousands):

	Commercial Foodservice	Food Processing	Residential Kitchen	Total
Balance, December 29, 2012	\$397,246	\$128,765	\$—	\$526,011
Goodwill acquired during the year	—	—	115,089	115,089
Measurement period adjustments to goodwill acquired in prior year	(3,472)	) 56	—	(3,416)
Exchange effect	(1,061)	) (905)	) —	(1,966)
Balance as of September 28, 2013	\$392,713	\$127,916	\$115,089	\$635,718

8) Accrued Expenses

Accrued expenses consist of the following:

	Sep 28, 2013 (in thousands)	Dec 29, 2012
Accrued payroll and related expenses	\$46,104	\$42,960
Advanced customer deposits	34,212	37,392
Accrued warranty	24,528	17,593
Accrued customer rebates	21,354	23,901
Accrued product liability and workers compensation	15,329	13,290
Accrued agent commission	11,064	9,531
Accrued professional services	7,566	8,346
Other accrued expenses	27,041	17,919
	\$187,198	\$170,932

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, actual claims costs may differ from amounts provided. Adjustments to initial obligations for warranties are made as changes in the obligations become reasonably estimable.

A rollforward of the warranty reserve is as follows:

	Nine Months Ended Sep 28, 2013 (in thousands)
Beginning balance	\$17,593
Warranty reserve related to acquisitions	8,386
Warranty expense	27,626
Warranty claims	(29,077)
Ending balance	\$24,528

10)Financing Arrangements

	Sep 28, 2013 (in thousands)	Dec 29, 2012
Senior secured revolving credit line	\$535,000	\$256,500
Foreign loans	2,060	3,220
Other debt arrangement	326	350
Total debt	\$537,386	\$260,070
Less: Current maturities of long-term debt	778	1,850
Long-term debt	\$536,608	\$258,220

On August 7, 2012, the company entered into a new senior secured multi-currency credit facility. Terms of the company's senior credit agreement provide for \$1.0 billion of availability under a revolving credit line. As of September 28, 2013, the company had \$535.0 million of borrowings outstanding under this facility. The company also had \$13.0 million in outstanding letters of credit as of September 28, 2013, which reduces the borrowing availability under the revolving credit line. Remaining borrowing availability under this facility was \$452.0 million at September 28, 2013.

At September 28, 2013, borrowings under the senior secured credit facility are assessed at an interest rate of 1.75% above LIBOR for long-term borrowings or at the higher of the Prime rate and the Federal Funds Rate. At September 28, 2013 the average interest rate on the senior debt amounted to 1.95%. The interest rates on borrowings under the senior secured credit facility may be adjusted quarterly based on the company's 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 0.28% as of September 28, 2013.

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. These facilities included a revolving credit facility and term loan. At September 28, 2013 these facilities amounted to \$1.6 million in U.S. dollars, including \$0.2 million outstanding under a revolving credit facility and \$1.4 million under a term loan. The interest rate on the revolving credit facility is assessed at 1.25% above Euro LIBOR, which amounted to 2.70% on September 28, 2013. The term loan matures in 2022 and the interest rate is assessed at 4.55%.

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 denominated in Euro. At September 28, 2013 these facilities amounted to \$0.4 million in U.S. dollars. The interest rate on the credit facilities is variable based on the three-month Euro LIBOR. At September 28, 2013, the average interest rate on these facilities was approximately 4.26%. The facilities are secured by outstanding accounts receivable collectible within six months.

The company's debt is reflected on the balance sheet at cost. Based on current market conditions, the company believes its interest rate margins on its existing debt are consistent with current market conditions and therefore the carrying value of debt approximates fair value. However, as the interest rate margin is based upon numerous factors, including but not limited to the credit rating of the borrower, the duration of the loan, the structure and restrictions under the debt agreement, current lending policies of the counterparty, and the company's relationships with its lenders, there is no readily available market data to ascertain the current market rate for an equivalent debt instrument. As a result, the current interest rate margin is based upon the company's best estimate based upon discussions with its lenders.

The company estimated the fair value of its loans by calculating the upfront cash payment a market participant would require to assume the company's obligations. The upfront cash payment is the amount that a market participant would be able to lend at September 28, 2013 to achieve sufficient cash inflows to cover the cash outflows under the company's senior revolving credit facility assuming the facility was outstanding in its entirety until maturity. Since the company maintains its borrowings under a revolving credit facility and there is no predetermined borrowing or repayment schedule, for purposes of this calculation the company calculated the fair value of its obligations assuming the current amount of debt at the end of the period was outstanding until the maturity of the company's senior revolving credit facility in August 2017. Although borrowings could be materially greater or less than the current amount of borrowings outstanding at the end of the period, it is not practical to estimate the amounts that may be outstanding during future periods. The carrying value and estimated aggregate fair value, a level 2 measurement, based primarily on market prices, of debt is as follows (in thousands):

	Sep 28, 2013		Dec 29, 2012	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Total debt	\$537,386	\$537,386	\$260,070	\$260,070

The company believes that its current capital resources, including cash and cash equivalents, cash expected to be generated from operations, funds available from its current lenders and access to the credit and capital markets will be sufficient to finance its operations, debt service obligations, capital expenditures, product development and expenditures for the foreseeable future.

The company has historically entered into interest rate swap agreements to effectively fix the interest rate on a portion of its outstanding debt. The agreements swap one-month LIBOR for fixed rates. As of September 28, 2013 the company had the following interest rate swaps in effect:

Notional Amount	Fixed Interest Rate	Effective Date	Maturity Date
\$25,000,000	1.610%	2/23/2011	2/24/2014
\$25,000,000	2.520%	2/23/2011	2/23/2016
\$25,000,000	0.975%	7/18/2011	7/18/2014
\$15,000,000	1.185%	9/12/2011	9/12/2016
\$15,000,000	0.620%	9/12/2011	9/11/2014
\$10,000,000	0.498%	2/11/2013	7/11/2015
\$15,000,000	0.458%	2/11/2013	10/11/2015
\$25,000,000	0.635%	2/11/2013	8/11/2016
\$25,000,000	0.789%	2/11/2013	3/11/2017
\$25,000,000	0.803%	2/11/2013	5/11/2017
\$35,000,000	0.880%	2/11/2013	7/11/2017
\$10,000,000	1.480%	9/11/2013	7/11/2017

The terms of the senior secured credit facility limit the ability of the company and its subsidiaries to, with certain exceptions: incur indebtedness; grant liens; engage in certain mergers, consolidations, acquisitions and dispositions; make restricted payments; and enter into certain transactions with affiliates; and require, among other things, a maximum ratio of indebtedness to EBITDA of 3.5 and a fixed charge coverage ratio (as defined in the senior secured credit facility) of 1.25. The senior secured credit facility is secured by substantially all of the assets of Middleby Marshall, the company and the company's domestic subsidiaries and is unconditionally guaranteed by, subject to certain exceptions, the company and certain of the company's direct and indirect material domestic subsidiaries. The senior secured credit facility contains certain customary events of default, including, but not limited to, the failure to make required payments; bankruptcy and other insolvency events; the failure to perform certain covenants; the material breach of a representation or warranty; non-payment of certain other indebtedness; the entry of undischarged judgments against the company or any subsidiary for the payment of material uninsured amounts; the invalidity of the Company guarantee or any subsidiary guaranty; and a change of control of the company. The credit agreement also provides that if a material adverse change in the company's business operations or conditions occurs, the lender could declare an event of default. Under terms of the agreement, a material adverse effect is defined as (a) a material adverse change in, or a material adverse effect upon, the operations, business properties, condition (financial and otherwise) or prospects of the company and its subsidiaries taken as a whole; (b) a material impairment of the ability of the company to perform under the loan agreements and to avoid any event of default; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against the company of any loan document. A material adverse effect is determined on a subjective basis by the company's creditors. At September 28, 2013, the company was in compliance with all covenants pursuant to its borrowing agreements.

11) Financial Instruments

ASC 815 "Derivatives and Hedging" 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 a derivative does qualify as a hedge under ASC 815, changes in the fair value will either be offset against the change in the 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 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. The following table summarizes the forward contracts outstanding at September 28, 2013. The fair value of the forward contracts was a loss of \$0.1 million at the end of the third quarter of 2013.

Sell		Purchase		Maturity
25,000,000	British Pounds	29,641,034	Euro Dollars	December 27, 2013
15,000,000	Euro Dollars	20,296,500	US Dollars	December 27, 2013

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 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 September 28, 2013, the fair value of these instruments was a liability of \$1.9 million. The change in fair value of these swap agreements in the first nine months of 2013 was a gain of \$0.6 million, net of taxes.

The following tables summarize the company's fair value of interest rate swaps (in thousands):

	Condensed Consolidated Balance Sheet Presentation	Sep 28, 2013	Dec 29, 2012
Fair value	Other non-current liabilities	\$(1,909)	\$(2,853)

The impact on earnings from interest rate swaps was as follows (in thousands):

	Presentation of Gain/(loss)	Three Months Ended Sep 28, 2013	Sep 29, 2012	Nine Months Ended Sep 28, 2013	Sep 29, 2012
Gain/(loss) recognized in accumulated other comprehensive income	Other comprehensive income	\$(1,131)	\$(486)	\$(523)	\$(1,638)
Gain/(loss) reclassified from accumulated other comprehensive income (effective portion)	Interest expense	\$(528)	\$(501)	\$(1,440)	\$(1,518)
Gain/(loss) recognized in income (ineffective portion)	Other expense	\$(7)	\$5	\$27	\$18

Interest rate swaps are subject to default risk to the extent the counterparties are unable to satisfy their settlement obligations under the interest rate swap agreements. The company reviews the credit profile of the financial institutions and assesses its creditworthiness prior to entering into the interest rate swap agreements. The interest rate swap agreements typically contain provisions that allow the counterparty to require early settlement in the event that the company becomes insolvent or is unable to maintain compliance with its covenants under its existing debt agreements.

12) Segment Information

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

The Commercial Foodservice Equipment Group manufactures, sells, and distributes cooking equipment for the restaurant and institutional kitchen industry. This business segment has manufacturing facilities in California, Illinois, Michigan, New Hampshire, North Carolina, Tennessee, Texas, Vermont, Australia, China, Denmark, Italy, the Philippines and the United Kingdom. Principal product lines of this group include conveyor ovens, ranges, steamers, convection ovens, combi-ovens, broilers and steam cooking equipment, induction cooking systems, baking and proofing ovens, charbroilers, catering equipment, fryers, toasters, hot food servers, foodwarming equipment, griddles, coffee and beverage dispensing equipment and kitchen processing and ventilation equipment. These products are sold and marketed under the brand names: Anets, Beech, Blodgett, Blodgett Combi, Blodgett Range, Bloomfield, Britannia, CTX, Carter-Hoffmann, CookTek, Doyon, Frifri, Giga, Holman, Houno, IMC, Jade, Lang, Lincat, MagiKitch'n, Middleby Marshall, MPC, Nieco, Nu-Vu, PerfectFry, Pitco, Southbend, Star, Toastmaster, TurboChef, Viking and Wells.

The Food Processing Equipment Group manufactures preparation, cooking, packaging food handling and food safety equipment for the food processing industry. This business segment has manufacturing operations in Illinois, Iowa, North Carolina, Texas, Virginia, Wisconsin, Australia, France, Germany and Mexico. Principal product lines of this group include batch ovens, belt ovens, continuous processing ovens, frying systems, automated thermal processing systems, automated loading and unloading systems, meat presses, breading, battering, mixing, forming, grinding and slicing equipment, food suspension, reduction and emulsion systems, defrosting equipment, packaging and food safety equipment. These products are sold and marketed under the brand names: Alkar, Armor Inox, Auto-Bake, Baker Thermal Solutions, Danfotech, Drake, Maurer-Atmos, MP Equipment, RapidPak, Spooner Vicars and Stewart.

The Residential Kitchen Equipment Group manufactures, sells and distributes kitchen equipment for the residential market. This business segment has manufacturing facilities in Greenwood, MS. Principal product lines of this group are ranges, ovens, refrigerators, dishwashers, microwaves, cooktops and outdoor equipment. These products are sold and marketed under the brand names of Viking and Brigade.

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

Net Sales Summary

(dollars in thousands)

Business Segments:	Three Months Ended				Nine Months Ended			
	Sep 28, 2013		Sep 29, 2012		Sep 28, 2013		Sep 29, 2012	
	Sales	Percent	Sales	Percent	Sales	Percent	Sales	Percent
Commercial Foodservice	\$230,807	64.1 %	\$198,615	77.1 %	\$651,211	61.9 %	\$573,431	76.8 %
Food Processing	71,209	19.8	59,084	22.9	224,583	21.4	173,131	23.2
Residential Kitchen	57,997	16.1	—	—	175,471	16.7	—	—
Total	\$360,013	100.0 %	\$257,699	100.0 %	\$1,051,265	100.0 %	\$746,562	100.0 %

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

	Commercial Foodservice	Food Processing	Residential Kitchen	Corporate and Other(2)	Total
Three Months Ended September 28, 2013					
Net sales	\$230,807	\$71,209	\$57,997	\$—	\$360,013
Income (loss) from operations	61,947	8,905	8,498	(11,862)	67,488
Depreciation and amortization expense	4,557	2,017	2,215	411	9,200
Net capital expenditures	1,705	377	872	6	2,960
Nine Months Ended September 28, 2013					
Net sales	\$651,211	\$224,583	\$175,471	\$—	\$1,051,265
Income (loss) from operations	169,089	34,010	5,173	(38,264)	170,008
Depreciation and amortization expense	13,826	6,173	13,799	1,219	35,017
Net capital expenditures	6,491	2,517	1,941	107	11,056
Total assets	\$878,591	\$302,239	\$434,330	\$85,328	\$1,700,488
Three Months Ended September 29, 2012					
Net sales	\$198,615	\$59,084	\$—	\$—	\$257,699
Income (loss) from operations	50,105	7,877	—	(10,553)	47,429
Depreciation and amortization expense	4,238	2,250	—	613	7,101
Net capital expenditures	779	2,029	—	58	2,866
Nine Months Ended September 29, 2012					
Net sales	\$573,431	\$173,131	\$—	\$—	\$746,562
Income (loss) from operations	139,508	23,755	—	(33,836)	129,427
Depreciation and amortization expense	13,445	6,182	—	1,063	20,690
Net capital expenditures	3,108	2,752	—	103	5,963
Total assets	\$853,582	\$277,129	\$—	\$63,291	\$1,194,002

(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.

Geographic Information

Long-lived assets, not including goodwill and other intangibles (in thousands):

	Sep 28, 2013	Sep 29, 2012
United States and Canada	\$108,854	\$50,415
Asia	4,126	3,486
Europe and Middle East	16,207	19,042
Latin America	1,484	1,260
Total international	\$21,817	\$23,788
	\$130,671	\$74,203

Net sales (in thousands):

	Three Months Ended		Nine Months Ended	
	Sep 28, 2013	Sep 29, 2012	Sep 28, 2013	Sep 29, 2012
United States and Canada	\$264,665	\$176,982	\$779,394	\$511,475
Asia	30,721	23,495	75,128	66,634
Europe and Middle East	46,510	42,289	135,726	123,165
Latin America	18,117	14,933	61,017	45,288
Total international	\$95,348	\$80,717	\$271,871	\$235,087
	\$360,013	\$257,699	\$1,051,265	\$746,562

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 July 1, 2002, further described below.

The company maintains a non-contributory defined benefit plan for its employees at the Smithville, Tennessee facility, which was acquired as part of the Star acquisition. Benefits are determined based upon retirement age and years of service with the company. This defined benefit plan was frozen on April 1, 2008, 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 1, 2008 upon reaching retirement age.

The company maintains a defined benefit plan for its employees at the Wrexham, the United Kingdom facility, which was acquired as part of the Lincat acquisition. Benefits are determined based upon retirement age and years of service with the company. This defined benefit plan was frozen on April 30, 2010 prior to Middleby's acquisition of the company. 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, 2010 upon reaching retirement age.

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.

(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) Acquisition Integration Initiatives

During the first quarter of 2013, in connection with the Viking acquisition, the company made decisions and took actions to improve certain of the operations of Viking. The company anticipates these initiatives will be substantially complete by the end of the 2013 fiscal year. The company recorded expense in the amount of \$7.4 million in the first nine months of the year primarily for severance and employee benefits, product discontinuance, office consolidation and termination of agreements associated with this initiative.

15) Subsequent Event

On October 15, 2013, subsequent to the end of the third quarter, the company, through its newly created Indian subsidiary, Middleby Commercial Food Innovations Pvt. Ltd., completed its acquisition of Celfrost Innovations Pvt. Ltd. ("Celfrost"), a leading manufacturer of commercial refrigeration and foodservice products located in Gurgaon, India with annual revenues of approximately \$20.0 million.

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

Informational Notes

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 ("SEC") filings, including the company's 2012 Annual Report on Form 10-K.

Net Sales Summary

(dollars in thousands)

	Three Months Ended				Nine Months Ended				
	Sep 28, 2013		Sep 29, 2012		Sep 28, 2013		Sep 29, 2012		
	Sales	Percent	Sales	Percent	Sales	Percent	Sales	Percent	
Business Segments:									
Commercial Foodservice	\$230,807	64.1 %	\$198,615	77.1 %	\$651,211	61.9 %	\$573,431	76.8 %	
Food Processing	71,209	19.8	59,084	22.9	224,583	21.4	173,131	23.2	
Residential Kitchen	57,997	16.1	—	—	175,471	16.7	—	—	
Total	\$360,013	100.0 %	\$257,699	100.0 %	\$1,051,265	100.0 %	\$746,562	100.0 %	

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		Nine Months Ended	
	Sep 28, 2013	Sep 29, 2012	Sep 28, 2013	Sep 29, 2012
Net sales	100.0	% 100.0	% 100.0	% 100.0
Cost of sales	60.7	61.0	62.0	61.2
Gross profit	39.3	39.0	38.0	38.8
Selling, general and administrative expenses	20.5	20.6	21.8	21.5
Income from operations	18.8	18.4	16.2	17.3
Net interest expense and deferred financing amortization	1.2	1.1	1.1	0.9
Other expense (income), net	0.4	1.1	0.2	0.5
Earnings before income taxes	17.2	16.2	14.9	15.9
Provision for income taxes	5.8	4.6	5.0	4.8
Net earnings	11.4	% 11.6	% 9.9	% 11.1

Three Months Ended September 28, 2013 Compared to Three Months Ended September 29, 2012

NET SALES. Net sales for the third quarter of fiscal 2013 were \$360.0 million as compared to \$257.7 million in the third quarter of 2012. Of the \$102.3 million increase in net sales, \$71.8 million, or 27.9%, was attributable to acquisition growth, resulting from the fiscal 2012 acquisitions of Stewart and Nieco and the fiscal 2013 acquisition of Viking. Excluding acquisitions, net sales increased \$30.5 million, or 11.8%, from the prior year, reflecting a net sales increase of 11.7% at the Commercial Foodservice Equipment Group and an increase of 12.2% at the Food Processing Equipment Group.

Net sales of the Commercial Foodservice Equipment Group increased by \$32.2 million, or 16.2%, to \$230.8 million in the third quarter of 2013 as compared to \$198.6 million in the prior year quarter. Net sales resulting from the acquisition of Nieco, which was acquired on October 31, 2012, accounted for an increase of \$8.9 million during the third quarter of 2013. Excluding the impact of this acquisition, net sales of Commercial Foodservice Equipment increased \$23.3 million, or 11.7% as compared to the prior year quarter. International sales increased \$10.1 million, or 18.2%, to \$65.6 million, as compared to \$55.5 million in the prior year quarter. This includes the increase of \$3.9 million from the recent acquisition. Excluding the acquisition, the net increase of \$6.2 million in international sales reflects increased sales in Europe, Latin America and the Middle East as the company continues to realize strong growth in emerging markets due to expansion of restaurant chains. Domestically, the company realized a sales increase of \$22.1 million, or 15.4%, to \$165.2 million, as compared to \$143.1 million in the prior year quarter. This includes an increase of \$5.0 million from the recent acquisition. This increase in domestic sales includes increased sales with customer initiatives to improve efficiencies in restaurant operations by adopting new cooking and warming technologies and general improvements in market conditions.

Net sales of the Food Processing Equipment Group increased by \$12.1 million, or 20.5%, to \$71.2 million in the third quarter of 2013 as compared to \$59.1 million in the prior year quarter. Net sales resulting from the acquisition of Stewart, which was acquired on September 5, 2012, accounted for an increase of \$4.9 million during the third quarter of 2013. Excluding the impact of this acquisition, net sales of Food Processing Equipment increased by \$7.2 million, or 12.2%, as compared to the prior year quarter. International sales increased by \$1.4 million, or 5.6%, to \$26.6 million, as compared to \$25.2 million in the prior year quarter. This includes the increase of \$1.2 million from the recent acquisition. Domestically, the company realized a sales increase of \$10.7 million, or 31.6%, to \$44.6 million, as compared to \$33.9 million in the prior year quarter. This includes an increase of \$3.7 million from the recent acquisition. The increase in domestic sales reflects expansion of food processing operations to support growing global demand and initiatives to upgrade food processing operations to more efficient and cost effective equipment.

Net sales of the Residential Kitchen Equipment Group, which was established on December 31, 2012, were \$58.0 million.

GROSS PROFIT. Gross profit increased to \$141.4 million in the third quarter of 2013 from \$100.4 million in the prior year period, reflecting the impact of higher sales volumes. The gross margin rate increased from 39.0% in the third quarter of 2012 to 39.3% in the third quarter of 2013. The net increase in the gross margin rate reflects the benefit of acquisition integration initiatives.

Gross profit at the Commercial Foodservice Equipment Group increased by \$15.5 million, or 19.3%, to \$96.0 million in the third quarter of 2013 as compared to \$80.5 million in the prior year quarter. The gross margin rate increased to 41.6% as compared to 40.5% in the prior year quarter primarily due to a more favorable sales mix. Gross profit from the acquisition of Nieco accounted for approximately \$4.0 million of the increase in gross profit. Excluding the recent acquisition, the gross profit increased by approximately \$11.5 million on the higher sales volumes.

Gross profit at the Food Processing Equipment Group increased by \$2.1 million, or 10.3%, to \$22.4 million in the third quarter of 2013 as compared to \$20.3 million in the prior year quarter. The gross margin rate declined to 31.5% as compared to 34.3% in the prior year quarter. Gross profit from the acquisition of Stewart, accounted for approximately \$1.0 million of the increase. Excluding the recent acquisition, the gross profit increased by approximately \$1.1 million on higher sales volumes and the gross margin rate increased to 32.3%.

Gross profit at the Residential Kitchen Equipment Group amounted to \$22.1 million at a gross margin rate of 38.1%. The gross margin rate is expected to improve as the company realizes the benefit of ongoing integration initiatives.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Combined selling, general and administrative expenses increased from \$53.0 million in the third quarter of 2012 to \$74.0 million in the third quarter of 2013. As a percentage of net sales, operating expenses were 20.6% in the third quarter of 2012 as compared to 20.5% in the third quarter of 2013. Selling expenses increased from \$26.0 million in the third quarter of 2012 to \$41.8 million in the third quarter of 2013. Selling expenses reflect increased costs of \$13.1 million associated with the Stewart, Nieco and Viking acquisitions. Additionally, expenses increased \$1.8 million related to higher wages, commissions and bonuses on higher sales volumes and \$0.6 million related to convention and trade show costs. General and administrative expenses increased from \$27.1 million in the third quarter of 2012 to \$32.2 million in the third quarter of 2013. General and administrative expenses reflect \$3.5 million of increased costs associated with the Stewart, Nieco and Viking acquisitions, including \$0.7 million of non-cash intangible amortization expense. Additionally, expenses increased \$1.1 million in incentive compensation and \$0.9 million in professional services associated with acquisition related activities. These increases were offset by a reduction of \$0.4 million in non-cash intangible amortization expense.

NON-OPERATING EXPENSES. Interest and deferred financing amortization costs increased to \$4.2 million in the third quarter of 2013 as compared to \$3.0 million in the third quarter of 2012 due to increased borrowings to fund the Viking acquisition. Other expense was \$1.4 million in the third quarter of 2013 as compared to \$2.8 million in the prior year third quarter and consists primarily of foreign exchange gains and losses.

INCOME TAXES. A tax provision of \$20.9 million, at an effective rate of 33.8%, was recorded during the third quarter 2013, as compared to an \$11.9 million provision at a 28.6% effective rate in the prior year quarter. In comparison to the prior year quarter, the tax provision reflects a higher effective rate on increased income from its domestic jurisdiction as well as a decrease in favorable adjustments to tax reserves.

Nine Months Ended September 28, 2013 Compared to Nine Months Ended September 29, 2012

NET SALES. Net sales for the nine month period ended September 28, 2013 were \$1,051.3 million as compared to \$746.6 million in the nine month period ended September 29, 2012. Of the \$304.7 million increase in net sales, \$221.9 million, or 29.7%, was attributable to acquisition growth, resulting from the fiscal 2012 acquisitions of Baker, Stewart and Nieco and the fiscal 2013 acquisition of Viking. Excluding acquisitions, net sales increased \$82.8 million, or 11.1%, from the prior year, reflecting a net sales increase of 10.5% at the Commercial Foodservice Equipment Group and an increase of 13.2% at the Food Processing Equipment Group.

Net sales of the Commercial Foodservice Equipment Group increased by \$77.8 million, or 13.6%, to \$651.2 million in the nine month period ended September 28, 2013 as compared to \$573.4 million in the prior period. Net sales resulting from the acquisition of Nieco which was acquired on October 31, 2012, accounted for an increase of \$17.7 million during the nine month period ended September 28, 2013. Excluding the impact of this acquisition, net sales of Commercial Foodservice Equipment increased by \$60.1 million, or 10.5%, as compared to the prior period.

International sales increased \$25.6 million, or 16.1%, to \$184.4 million, as compared to \$158.8 million in the prior period. This includes the increase of \$8.4 million from the recent acquisition. Excluding the acquisition, the net increase of \$17.2 million in international sales reflects increased sales in Asia, Latin America and the Middle East as the company continues to realize strong growth in emerging markets due to expansion of restaurant chains, offset by lower sales in Europe due to economic conditions. Domestically, the company realized a sales increase of \$52.2 million, or 12.6%, to \$466.8 million, as compared to \$414.6 million in the prior period. This includes an increase of \$9.3 million from the recent acquisition. This increase in domestic sales includes increased sales with customer initiatives to improve efficiencies in restaurant operations by adopting new cooking and warming technologies and general improvements in market conditions.

- Net sales of the Food Processing Equipment Group increased by \$51.5 million, or 29.8%, to \$224.6 million in the nine month period ended September 28, 2013 as compared to \$173.1 million in the prior period. Net sales resulting from the acquisitions of Baker and Stewart, which were acquired March 14, 2012 and September 5, 2012, respectively, accounted for an increase of \$28.7 million during the nine month period ended September 28, 2013. Excluding the impact of these acquisitions, net sales of Food Processing Equipment increased by

\$22.8 million, or 13.2%, as compared to the prior period. International sales increased by \$6.6 million, or 8.7%, to \$82.9 million, as compared to \$76.3 million in the prior period. This includes an increase of \$8.8 million from the recent acquisitions. Domestically, the company realized a sales increase of \$44.9 million, or 46.4%, to \$141.7 million, as compared to \$96.8 million in the prior year quarter. This includes an increase of \$19.9 million from the recent acquisitions. The increase in sales, both international and domestic, reflects expansion of food processing operations to support growing global demand and initiatives to upgrade food processing operations to more efficient and cost effective equipment.

Net sales of the Residential Kitchen Equipment Group, which was established on December 31, 2012, were \$175.5 million. Net sales included approximately \$4.7 million related to non-core business activities which were discontinued in the previous quarter.

GROSS PROFIT. Gross profit increased to \$399.3 million in the nine month period ended September 28, 2013 from \$289.7 million in the prior year period, reflecting the impact of higher sales volumes. The gross margin rate decreased from 38.8% in the nine month period ended September 29, 2012 to 38.0% in the current year period. The net decrease in the gross margin rate reflects the impact of lower margins at Viking and other recent acquisitions.

Gross profit at the Commercial Foodservice Equipment Group increased by \$38.8 million, or 16.7%, to \$271.4 million in the nine month period ended September 28, 2013 as compared to \$232.6 million in the prior year period.

The gross margin rate increased to 41.7% as compared to 40.6% in the prior year period. Gross profit from the acquisition of Nieco accounted for approximately \$8.0 million of the increase in gross profit during the period.

Excluding the recent acquisition, gross profit increased by approximately \$30.8 million on higher sales volumes.

Gross profit at the Food Processing Equipment Group increased by \$14.2 million, or 23.9%, to \$73.7 million in the nine month period ended September 28, 2013 as compared to \$59.5 million in the prior year period. The gross margin rate declined to 32.8% as compared to 34.4% in the prior year period due to lower margins at recently acquired companies. Gross profit from the acquisitions of Baker and Stewart accounted for approximately \$6.4 million of the increase. Excluding the recent acquisitions, gross profit increased by approximately \$7.8 million on higher sales volumes and the gross margin rate remained consistent at 34.4%.

Gross profit at the Residential Kitchen Equipment Group amounted to \$57.1 million at a gross margin rate of 32.5%.

The gross margin rate is expected to improve as the company realizes the benefit of ongoing integration initiatives.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Combined selling, general and administrative expenses increased from \$160.3 million in the nine month period ended September 29, 2012 to \$229.3 million in the nine month period ended September 28, 2013. As a percentage of net sales, operating expenses were 21.5% in the nine month period ended September 29, 2012 as compared to 21.8% in the nine month period ended September 28, 2013. Selling expenses increased from \$79.4 million in the nine month period ended September 29, 2012 to \$116.6 million in the nine month period ended September 28, 2013. Selling expenses reflect increased costs of \$33.4 million associated with the Baker, Stewart, Nieco and Viking acquisitions. Additionally, expenses increased \$3.8 million related to higher wages, commissions and bonuses on higher sales volumes. General and administrative expenses increased from \$80.9 million in the nine month period ended September 29, 2012 to \$112.7 million in the nine month period ended September 28, 2013. General and administrative expenses reflect \$20.6 million of increased costs associated with the Baker, Stewart, Nieco and Viking acquisitions, including \$9.8 million of non-cash intangible amortization expense. Additionally, expenses increased \$2.3 million in incentive compensation and \$1.5 million in professional services associated with acquisition related activities. The company also recorded \$7.4 million of expenses associated with acquisition integration initiatives associated with Viking.

NON-OPERATING EXPENSES. Interest and deferred financing amortization costs were \$11.7 million in the nine month period ended September 28, 2013, as compared to \$7.0 million in the prior period, due to increased borrowings to fund the Viking acquisition. Other expense was \$2.0 million in the nine month period ended September 28, 2013, as compared to \$3.7 million in the prior year period, and consists primarily of foreign exchange gains and losses.

INCOME TAXES. A tax provision of \$52.3 million, at an effective rate of 33.5%, was recorded during the nine month period ended September 28, 2013, as compared to a \$35.8 million provision at a 30.2% effective rate in the prior year period. In comparison to the prior year period, the tax provision reflects a higher effective rate on increased income from its domestic jurisdiction as well as a decrease in favorable adjustments to tax reserves.

Financial Condition and Liquidity

During the nine months ended September 28, 2013, cash and cash equivalents decreased by \$5.0 million to \$29.4 million at September 28, 2013 from \$34.4 million at December 29, 2012. Net borrowings increased from \$260.1 million at December 29, 2012 to \$537.4 million at September 28, 2013.

OPERATING ACTIVITIES. Net cash provided by operating activities was \$83.6 million for the nine months ended September 28, 2013 compared to \$94.0 million for the nine months ended September 29, 2012 due primarily to

increased working capital needs offset by increased earnings and increased depreciation and amortization.

During the nine months ended September 28, 2013, working capital levels changed due to increased working capital needs. These changes in working capital levels included a \$18.8 million increase in inventory, due to several factors including increased order rates, increased inventory levels during build out periods in conjunction with plant consolidation efforts and higher levels of stock associated with expanding foreign operations. Accounts receivable increased \$13.3 million due to increased sales volume and higher receivable balances at the Food Processing Equipment Group resulting from the timing of projects. Changes in working capital levels also included a \$13.8 million increase in prepaid tax expenses and other prepaid assets primarily related to the timing of orders at the Food Processing Equipment Group, a \$5.4 million decrease in accounts payable due to the timing of vendor payments and a \$15.6 million decrease in accrued expenses and other non-current liabilities primarily related to payment of 2012 annual rebate programs and incentive obligations.

INVESTING ACTIVITIES. During the nine months ended September 28, 2013, net cash used in investing activities included \$361.7 million related to the 2013 acquisition of Viking, \$14.9 million related to the 2013 acquisition of Viking Distributors, \$5.0 million related to the acquisition of intangible assets along with \$11.1 million of additions and upgrades of production equipment and manufacturing facilities offset by \$7.0 million of cash proceeds related to that sale of certain assets acquired in conjunction with the Viking acquisition.

FINANCING ACTIVITIES. Net cash flows provided in financing activities were \$296.5 million during the nine months ended September 28, 2013. The company's borrowing activities included the \$278.5 million of net proceeds under its \$1.0 billion revolving credit facility, primarily to fund the acquisition of Viking and other investing activities.

The company used \$3.6 million to repurchase 22,726 shares of its common stock that were surrendered to the company by employees in lieu of cash for payment for withholding taxes related to restricted stock vestings and stock option exercises that occurred during the nine months ended September 28, 2013.

At September 28, 2013, the company was in compliance with all covenants pursuant to its borrowing agreements. The company believes that its current capital resources, including cash and cash equivalents, cash generated from operations, funds available from its revolving credit facility and access to the credit and capital markets will be sufficient to finance its operations, debt service obligations, capital expenditures, acquisitions, product development and integration expenditures for the foreseeable future.

Recently Issued Accounting Standards

On July 27, 2012, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2012-02, "Intangibles - Goodwill and Other (Topic 350)". ASU-2012-02 allows an entity the option to make a qualitative evaluation to determine whether the existence of events and circumstances indicate that it is more likely than not the indefinite-lived intangible asset is impaired thus requiring the entity to perform quantitative impairment tests in accordance with ASC 350-30. The ASU also amends previous guidance by expanding upon the examples of events and circumstances that an entity should consider when making the qualitative evaluation. The adoption of this guidance did not have an impact on the company's financial position, results of operations or cash flows.

In January 2013, the FASB issued ASU No. 2013-01, "Clarifying the Scope of Disclosures about Offsetting Assets and Liabilities". This update provides clarification on the disclosure requirements related to recognized derivatives, repurchase agreements and reverse purchase agreements, and securities borrowing and lending transactions. This update is effective for annual reporting periods and corresponding interim periods beginning on or after January 1, 2013, and retrospective application is required. The company is currently evaluating the impact of the adoption of ASU No. 2013-01 on its financial position, results of operations and cash flows.

In March 2013, the FASB issued ASU No. 2013-02, "Comprehensive Income - Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income". ASU No. 2013-02 requires an entity to provide information about the amounts reclassified out of accumulated other comprehensive income by component. Additionally, an entity is required to present, either on the face of the statement where net income is presented or in the notes, significant amounts reclassified out of accumulated other comprehensive income by the respective line items of net income. The guidance does not change the items reported in other comprehensive income or when an item of other comprehensive

income is reclassified to net income. The company adopted the provisions of ASU No. 2013-02 on December 30, 2012. As this guidance only revises the presentation of comprehensive income, there was no impact to the company's financial position, results of operations or cash flows.

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 significant 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 and any such differences could be material to our consolidated financial statements.

Revenue Recognition. At the Commercial Foodservice Group, 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. Such revenue was approximately 62% for the nine month period ended September 28, 2013.

At the Food Processing Equipment Group, the company enters into long-term sales contracts for certain products that are often significant relative to the business. Revenue under these long-term sales contracts is recognized using the percentage of completion method defined within ASC 605-35 "Construction-Type and Production-Type Contracts" 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. Revenue for sales of products and services not covered by long-term sales contracts are recognized 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 Residential Kitchen Equipment Group, 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.

Inventories. Inventories are stated at the lower of cost or market using the first-in, first-out method for the majority of the company's inventories. The company evaluates the need to record valuation adjustments for inventory on a regular basis. The company's policy is to evaluate all inventories including raw material, work-in-process, finished goods, and spare parts. Inventory in excess of estimated usage requirements is written down to its estimated net realizable value. Inherent in the estimates of net realizable value are estimates related to our future manufacturing schedules, customer demand, possible alternative uses, and ultimate realization of potentially excess inventory.

Goodwill and Other Intangibles. The company's business acquisitions result in the recognition of goodwill and other intangible assets, which are a significant portion of the company's total assets. The company recognizes goodwill and other intangible assets under the guidance of ASC Topic 350-10, "Intangibles — Goodwill and Other." Goodwill represents the excess of acquisition costs over the fair value of the net tangible assets and identifiable intangible assets acquired in a business combination. Identifiable intangible assets are recognized separately from goodwill and include trademarks and trade names, technology, customer relationships and other specifically identifiable assets. Trademarks and trade names are deemed to be indefinite-lived. Goodwill and indefinite-lived intangible assets are not amortized, but are subject to impairment testing. On an annual basis, or more frequently if triggering events occur, the company compares the estimated fair value to the carrying value to determine if a potential goodwill impairment exists. If the fair value is less than its carrying value, an impairment loss, if any, is recorded for the difference between the implied fair value and the carrying value of goodwill. In estimating the fair value of specific intangible assets, management relies on a number of factors, including operating results, business plans, economic projections, anticipated future cash

flows, comparable transactions and other market data. There are inherent uncertainties related to these factors and management's judgment in applying them in the impairment tests of goodwill and other intangible assets.

Income Taxes. The company provides deferred income tax assets and liabilities based on the estimated future tax effects of differences between the financial and tax bases of assets and liabilities based on currently enacted tax laws. The company's deferred and other tax balances are based on management's interpretation of the tax regulations and rulings in numerous taxing jurisdictions. Income tax expense and liabilities recognized by the company also reflect its best estimates and assumptions regarding, among other things, the level of future taxable income, the effect of the Company's various tax planning strategies and uncertain tax positions. Future tax authority rulings and changes in tax laws, changes in projected levels of taxable income and future tax planning strategies could affect the actual effective tax rate and tax balances recorded by the company. The company follows the provisions under ASC 740-10-25 that provides a recognition threshold and measurement criteria for the financial statement recognition of a tax benefit taken or expected to be taken in a tax return. Tax benefits are recognized only when it is more likely than not, based on the technical merits, that the benefits will be sustained on examination. Tax benefits that meet the more-likely-than-not recognition threshold are measured using a probability weighting of the largest amount of tax benefit that has greater than 50% likelihood of being realized upon settlement. Whether the more-likely-than-not recognition threshold is met for a particular tax benefit is a matter of judgment based on the individual facts and circumstances evaluated in light of all available evidence as of the balance sheet date.

Contractual Obligations

The company's contractual cash payment obligations as of September 28, 2013 are set forth below (in thousands):

	Amounts Due Sellers From Acquisitions	Debt	Estimated Interest on Debt	Operating Leases	Total Contractual Cash Obligations
Less than 1 year	\$3,393	\$778	\$13,792	\$9,632	\$27,595
1-3 years	6,666	545	23,265	14,151	44,627
3-5 years	—	535,253	8,914	6,435	550,602
After 5 years	—	810	129	4,162	5,101
	\$10,059	\$537,386	\$46,100	\$34,380	\$627,925

The company has obligations to make \$10.1 million of purchase price payments to the sellers of Stewart, Nieco and Spooner Vicars that were deferred in conjunction with the acquisitions.

As of September 28, 2013, the company had \$535.0 million outstanding under its revolving credit line as part of its senior credit agreement. The average interest rate on this debt amounted to 1.95% at September 28, 2013. This facility matures in August of 2017. As of September 28, 2013, the company also has \$2.0 million of debt outstanding under various foreign credit facilities. The estimated interest payments reflected in the table above assume that the level of debt and average interest rate on the company's revolving credit line under its senior credit agreement does not change until the facility reaches maturity in August 2017. The estimated payments also assume that relative to the company's foreign borrowings: all scheduled term loan payments are made; the level of borrowings does not change; and the average interest rates remain at their September 28, 2013 rates. Also reflected in the table above is \$5.1 million of interest payments to be made related to the company's interest rate swap agreements.

The company's projected benefit obligation under its defined benefit plans exceeded the plans' assets by \$20.2 million at the end of 2012. The unfunded benefit obligations were comprised of a \$1.4 million underfunding of the company's union plan, \$7.3 million underfunding of the company's Smithville plan, which was acquired as part of the Star acquisition, \$2.5 million underfunding of the company's Wrexham plan, which was acquired as part of the Lincat acquisition, and \$9.0 million underfunding of the company's director plans. The company expects to continue to make minimum contributions to the Smithville and union plans as required by ERISA, of \$0.6 million and \$0.3 million, respectively, in 2013. The company expects to contribute \$0.5 million to the Wrexham plan in 2013.

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

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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.

Twelve Month Period Ending	Variable Rate Debt
September 28, 2014	\$778
September 28, 2015	418
September 28, 2016	127
September 28, 2017	535,127
September 28, 2018 and thereafter	936
	\$537,386

On August 7, 2012, the company entered into a new senior secured multi-currency credit facility. Terms of the company's senior credit agreement provide for \$1.0 billion of availability under a revolving credit line. As of September 28, 2013, the company had \$535.0 million of borrowings outstanding under this facility. The company also has \$13.0 million in outstanding letters of credit as of September 28, 2013, which reduces the borrowing availability under the revolving credit line. Remaining borrowing availability under this facility was \$452.0 million at September 28, 2013.

At September 28, 2013, borrowings under the senior secured credit facility are assessed at an interest rate 1.75% above LIBOR for long-term borrowings or at the higher of the Prime rate and the Federal Funds Rate. At September 28, 2013 the average interest rate on the senior debt amounted to 1.95%. The interest rates on borrowings under the senior secured credit facility may be adjusted quarterly based on the company's 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 0.28% as of September 28, 2013.

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. These facilities included a revolving credit facility and term loan. At September 28, 2013 these facilities amounted to \$1.6 million in U.S. dollars, including \$0.2 million outstanding under a revolving credit facility and \$1.4 million under a term loan. The interest rate on the revolving credit facility is assessed at 1.25% above Euro LIBOR, which amounted to 2.70% on September 28, 2013. The term loan matures in 2022 and the interest rate is assessed at 4.55%.

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 denominated in Euro. At September 28, 2013 these facilities amounted to \$0.4 million in U.S. dollars. The interest rate on the credit facilities is variable based on the three-month Euro LIBOR. At September 28, 2013, the average interest rate on these facilities was approximately 4.26%. The facilities are secured by outstanding accounts receivable collectible within six months.

The company believes that its current capital resources, including cash and cash equivalents, cash expected to be generated from operations, funds available from its current lenders and access to the credit and capital markets will be sufficient to finance its operations, debt service obligations, capital expenditures, product development and expenditures for the foreseeable future.

The company has historically entered into interest rate swap agreements to effectively fix the interest rate on a portion of its outstanding debt. The agreements swap one-month LIBOR for fixed rates. As of September 28, 2013 the company had the following interest rate swaps in effect:

Notional Amount	Fixed Interest Rate	Effective Date	Maturity Date
\$25,000,000	1.610%	2/23/2011	2/24/2014
\$25,000,000	2.520%	2/23/2011	2/23/2016
\$25,000,000	0.975%	7/18/2011	7/18/2014
\$15,000,000	1.185%	9/12/2011	9/12/2016
\$15,000,000	0.620%	9/12/2011	9/11/2014
\$10,000,000	0.498%	2/11/2013	7/11/2015
\$15,000,000	0.458%	2/11/2013	10/11/2015
\$25,000,000	0.635%	2/11/2013	8/11/2016
\$25,000,000	0.789%	2/11/2013	3/11/2017
\$25,000,000	0.803%	2/11/2013	5/11/2017
\$35,000,000	0.880%	2/11/2013	7/11/2017
\$10,000,000	1.480%	9/11/2013	7/11/2017

The terms of the senior secured credit facility limit the ability of the company and its subsidiaries to, with certain exceptions: incur indebtedness; grant liens; engage in certain mergers, consolidations, acquisitions and dispositions; make restricted payments; and enter into certain transactions with affiliates; and require, among other things a maximum ratio of indebtedness to EBITDA of 3.5 and a fixed charge coverage ratio (as defined in the senior secured credit facility) of 1.25. The senior secured credit facility is secured by substantially all of the assets of Middleby Marshall, the company and the company's domestic subsidiaries and is unconditionally guaranteed by, subject to certain exceptions, the company and certain of the company's direct and indirect material domestic subsidiaries. The senior secured credit facility contains certain customary events of default, including, but not limited to, the failure to make required payments; bankruptcy and other insolvency events; the failure to perform certain covenants; the material breach of a representation or warranty; non-payment of certain other indebtedness; the entry of undischarged judgments against the company or any subsidiary for the payment of material uninsured amounts; the invalidity of the Company guarantee or any subsidiary guaranty; and a change of control of the company. The credit agreement also provides that if a material adverse change in the company's business operations or conditions occurs, the lender could declare an event of default. Under terms of the agreement, a material adverse effect is defined as (a) a material adverse change in, or a material adverse effect upon, the operations, business properties, condition (financial and otherwise) or prospects of the company and its subsidiaries taken as a whole; (b) a material impairment of the ability of the company to perform under the loan agreements and to avoid any event of default; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against the company of any loan document. A material adverse effect is determined on a subjective basis by the company's creditors. At September 28, 2013, 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 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 September 28, 2013, the fair value of these instruments was a liability of \$1.9 million. The change in fair value of these swap agreements in the first nine months of 2013 was a gain of \$0.6 million, net of taxes.

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. The following table summarizes the forward contracts outstanding at September 28, 2013. The fair value of the forward contracts was a loss of \$0.1 million at the end of the third quarter of 2013.

Sell		Purchase		Maturity
25,000,000	British Pounds	29,641,034	Euro Dollars	December 27, 2013
15,000,000	Euro Dollars	20,296,500	US Dollars	December 27, 2013

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 September 28, 2013, 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 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 September 28, 2013, 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 nine months ended September 28, 2013, except as follows:

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

c) Issuer Purchases of Equity Securities

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Number of Shares that May Yet be Purchased Under the Plan or Program
June 30 to July 27, 2013	—	\$—	—	1,048,450
July 28 to August 24, 2013	9,246	200.63	9,246	1,039,204
August 25 to September 28, 2013	—	—	—	1,039,204
Quarter ended September 28, 2013	9,246	\$200.63	9,246	1,039,204

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. On February 22, 2013, the company's Board of Directors authorized the repurchase of up to an additional 1,000,000 shares of common stock under the existing share repurchase program. As of September 28, 2013, 1,760,796 shares had been purchased under the 1998 stock repurchase program.

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).
- Exhibit 101 – Financial statements on Form 10-Q for the quarter ended September 28, 2013, filed on November 7, 2013, formatted in Extensive Business Reporting Language (XBRL); (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of earnings, (iii) condensed statements of cash flows, (iv) notes to the condensed consolidated financial statements.

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: November 7, 2013

By: /s/ Timothy J. FitzGerald
Timothy J. FitzGerald
Vice President,
Chief Financial Officer