MIDDLEBY CORP
Form 10-Q
August 09, 2007

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended June 30, 2007

or
oTransition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

Commission File No. 1-9973

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

Delaware	**36-3352497**
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1400 Toastmaster Drive, Elgin, Illinois	**60120**
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone No., including Area Code **(847) 741-3300**

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

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

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

As of August 3, 2007, there were 16,590,696 shares of the registrant's common stock outstanding.

THE MIDDLEBY CORPORATION AND SUBSIDIARIES

QUARTER ENDED JUNE 30, 2007

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PART I. FINANCIAL INFORMATION

Item 1. Condensed Consolidated Financial Statements

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

ASSETS	Jun. 30, 2007	Dec. 30, 2006
Current assets:		
Cash and cash equivalents	$ 5,791	$ 3,534
Accounts receivable, net of reserve for doubtful accounts of $5,834 and $5,101	56,343	51,580
Inventories, net	58,679	47,292
Prepaid expenses and other	2,536	3,289
Prepaid taxes	342	1,129
Current deferred taxes	10,851	10,851
Total current assets	134,542	117,675
Property, plant and equipment, net of accumulated depreciation of $38,712 and $37,006	32,124	28,534
Goodwill	110,942	101,258
Other intangibles	36,200	35,306
Other assets	2,113	2,249
Total assets	$ 315,921	$ 285,022
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 16,572	$ 16,838
Accounts payable	24,122	19,689
Accrued expenses	59,114	69,636
Total current liabilities	99,808	106,163
Long-term debt	68,856	65,964
Long-term deferred tax liability	3,749	5,867
Other non-current liabilities	14,059	6,455
Stockholders' equity:		
Preferred stock, $0.01 par value; nonvoting; 2,000,000 shares authorized; none issued	--	--
Common stock, $0.005 par value; 47,500,000 shares authorized; 20,445,740 and 19,760,490 shares issued in 2007 and 2006, respectively	118	117
Paid-in capital	80,774	73,743
Treasury stock at cost; 3,855,044 shares in 2007 and 2006, respectively	(89,641)	(89,641)
Retained earnings	137,584	115,917
Accumulated other comprehensive income	614	437
Total stockholders' equity	129,449	100,573
Total liabilities and stockholders' equity	$ 315,921	$ 285,022

See accompanying notes

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

	Three Months Ended		Six Months Ended	
	Jun. 30, 2007	Jul. 1, 2006	Jun. 30, 2007	Jul. 1, 2006
Net sales	$ 113,248	$ 104,849	$ 218,943	$ 201,598
Cost of sales	68,362	63,122	132,952	124,347
Gross profit	44,886	41,727	85,991	77,251
Selling expenses	11,952	10,767	23,068	20,892
General and administrative expenses	11,732	10,681	22,915	20,932
Income from operations	21,202	20,279	40,008	35,427
Net interest expense and deferred financing amortization	1,273	2,031	2,517	3,827
Other (income) expense, net	(630)	165	(737)	72
Earnings before income taxes	20,559	18,083	38,228	31,528
Provision for income taxes	7,977	6,993	14,926	12,387
Net earnings	$ 12,582	$ 11,090	$ 23,302	$ 19,141
Net earnings per share:				
Basic	$ 0.80	$ 0.73	$ 1.50	$ 1.26
Diluted	$ 0.75	$ 0.67	$ 1.39	$ 1.16
Weighted average number of shares				
Basic	15,641	15,246	15,576	15,240
Dilutive stock options[1,2]	1,234	1,282	1,232	1,282
Diluted	16,875	16,528	16,808	16,522

[1] There were no anti-dilutive stock options excluded from common stock equivalents for the three and six month periods ended June 30, 2007.
[2] There were 7,000 anti-dilutive stock options excluded from common stock equivalents in the three and six months ended July 1, 2006.

See accompanying notes

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

	Six Months Ended	
	Jun. 30, 2007	Jul.1, 2006
Cash flows from operating activities-		
Net earnings	$ 23,302	$ 19,141
Adjustments to reconcile net earnings to cash provided by operating activities:		
Depreciation and amortization	2,747	2,433
Deferred taxes	32	(244)
Non-cash share-based compensation	3,261	2,320
Cash effects of changes in -		
Accounts receivable, net	1,489	(9,258)
Inventories, net	(2,771)	(2,668)
Prepaid expenses and other assets	1,529	1,342
Accounts payable	1,019	2,149
Accrued expenses and other liabilities	(8,201)	(1,456)
Net cash provided by (used in) operating activities	22,407	13,759
Cash flows from investing activities-		
Net additions to property and equipment	(1,069)	(882)
Acquisition of Alkar	--	(1,500)
Acquisition of Jade	(7,391)	--
Acquisition of Carter Hoffmann	(15,928)	--
Net cash (used in) investing activities	(24,388)	(2,382)
Cash flows from financing activities-		
Net proceeds (repayments) under revolving credit facilities	10,900	(5,750)
(Repayments) under senior secured bank notes	(7,500)	(6,250)
(Repayments) under foreign bank loan	(904)	(101)
(Repayments) under note agreement	--	(149)
Net proceeds from stock issuances	1,687	59
Net cash provided by (used in) financing activities	4,183	(12,191)
Effect of exchange rates on cash and cash equivalents	55	62
Changes in cash and cash equivalents-		
Net increase (decrease) in cash and cash equivalents	2,257	(752)
Cash and cash equivalents at beginning of year	3,534	3,908
Cash and cash equivalents at end of quarter	$ 5,791	$ 3,156

Supplemental disclosure of cash flow information:				
Interest paid	**$**	**2,518**	**$**	**3,313**
Income tax payments	**$**	**13,449**	**$**	**5,700**

See accompanying notes

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THE MIDDLEBY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2007
(Unaudited)

1) Summary of Significant Accounting Policies

A) Basis of Presentation

The condensed consolidated financial statements have been prepared by The Middleby Corporation (the "company"), pursuant to the rules and regulations of the Securities and Exchange Commission. The financial statements are unaudited and certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the company believes that the disclosures are adequate to make the information not misleading. These financial statements should be read in conjunction with the financial statements and related notes contained in the company's 2006 Form 10-K.

In the opinion of management, the financial statements contain all adjustments necessary to present fairly the financial position of the company as of June 30, 2007 and December 30, 2006, and the results of operations for the six months ended June 30, 2007 and July 1, 2006 and cash flows for the six months ended June 30, 2007 and July 1, 2006.

B) Share-Based Compensation

Share-based compensation expense is calculated by estimating the fair value of market based stock awards and stock options at the time of grant and amortized over the stock options’ vesting period. Share-based compensation expense was $1.9 million and $1.2 million for the second quarter of 2007 and 2006, respectively. Share-based compensation was $3.3 million and $2.3 million for the six month periods ended June 30, 2007 and July 1, 2006, respectively.

C) Income Tax Contingencies

In July 2006, the FASB issued Interpretation No. 48 “Accounting for Uncertainty in Income Taxes” (“FIN 48”). This interpretation prescribes a comprehensive model for how a company should recognize, measure, present and disclose in its financial statements uncertain tax positions that the company has taken or expects to take on a tax return. FIN 48 states that a tax benefit from an uncertain tax position may be recognized only if it is “more likely than not” that the position is sustainable, based on its technical merits. The tax benefit of a qualifying position is the largest amount of tax benefit that is greater than 50% likely of being realized upon settlement with a taxing authority having full knowledge of all relevant information. A tax benefit from an uncertain position was previously recognized if it was probable of being sustained. Under FIN 48, the liability for unrecognized tax benefits is classified as non-current unless the liability is expected to be settled in cash within 12 months of the reporting date. FIN 48 is effective as of the beginning of the first fiscal year beginning after December 15, 2006. The company adopted the provisions of FIN 48 on the first day of fiscal 2007 (December 31, 2006), as required.

The following table indicates the effect of the application of FIN 48 on individual line items in the Consolidated Balance Sheet as of the adoption date (dollars in thousands).

	Before FIN 48	Adjustment	After FIN 48
Accrued liabilities	$ 69,636	$ (5,395)	$ 64,241
Other non-current liabilities	$ 6,455	$ 7,030	$ 13,485
Retained earnings	$ 115,917	$ (1,635)	$ 114,282

The company operates in multiple taxing jurisdictions, both within the United States and outside of the United States, and faces audits from various tax authorities regarding transfer pricing, the deductibility of certain expenses, intercompany transactions as well as other matters. As of the adoption date, the total amount of liability for unrecognized tax benefits related to federal, state and foreign taxes was approximately $5.7 million (of which the entire amount would impact the effective tax rate if recognized) plus approximately $0.5 million of accrued interest and $0.8 million of penalties. As of June 30, 2007, the corresponding balance of liability for unrecognized tax benefits is approximately $5.6 million plus approximately $0.6 million of accrued interest and $0.8 million of penalties. The company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense, which is consistent with reporting in prior periods.

The company is not currently under examination in any tax jurisdiction; however it remains subject to examination until the statute of limitations expires for the respective tax jurisdiction. Within specific countries, the company and its operating subsidiaries may be subject to audit by various tax authorities and may be subject to different statute of limitations expiration dates. A summary of the tax years that remain subject to examination in the company’s major tax jurisdictions are:

United States - federal	2003 - 2006
United States - states	2002 - 2006
China	2006
Denmark	2006
Mexico	2006
Philippines	2004 - 2006
South Korea	2004 - 2006
Spain	2003 - 2006
Taiwan	2005 - 2006
United Kingdom	2006

The company does not anticipate that total unrecognized tax benefits will significantly change due to the settlement of audits and the expiration of statute of limitations prior to June 30, 2008.

2) Purchase Accounting

Houno

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

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

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

	Aug. 31, 2006	Adjustments	Dec. 30, 2006
Current assets	$ 4,325	$ --	$ 4,325
Property, plant and equipment	4,371	--	4,371
Goodwill	1,287	199	1,486
Other intangibles	1,139	(199)	940
Other assets	92	--	92
Current liabilities	(3,061)	--	(3,061)
Long-term debt	(2,858)	--	(2,858)
Long-term deferred tax liability	(356)	--	(356)
Total cash paid	$ 4,939	$ --	$ 4,939

The goodwill is subject to the nonamortization provisions of SFAS No. 142 from the date of acquisition. Other intangibles also includes $0.1 million allocated to backlog and $0.8 million allocated to developed technology which are amortized over periods of 1 month and 5 years, respectively. Goodwill and other intangibles of Houno are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are not deductible for tax purposes.

Jade

On April 1, 2007, the company completed its acquisition of the assets and operations of Jade Products Company (“Jade”), a leading manufacturer of commercial and residential cooking equipment from Maytag Corporation ("Maytag") for an aggregate purchase price of $7.4 million in cash. The purchase price is subject to adjustment based upon a working capital provision within the purchase agreement.

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

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

	Apr. 1, 2007
Current assets	$ 6,727
Property, plant and equipment	2,029
Goodwill	250
Other intangibles	1,590
Current liabilities	(3,206)
Total cash paid	$ 7,391

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

Carter Hoffmann

On June 29, 2007, the company completed its acquisition of the assets and operations of Carter Hoffmann ("Carter Hoffmann"), a leading manufacturer of commercial cooking and warming equipment from Carrier Commercial Refrigeration Inc., a subsidiary of Carrier Corporation, which is a unit of United Technologies Corporation, for an aggregate purchase price of $15.9 million in cash. The purchase price is subject to adjustment based upon a working capital provision within the purchase agreement.

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

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

	Jun. 29, 2007
Current assets	$ 7,912
Property, plant and equipment	2,264
Goodwill	9,452
Current liabilities	(3,646)
Other non-current liabilities	(54)
Total cash paid	$ 15,928

The goodwill associated with the Carter Hoffmann acquisition is subject to the non-amortization provisions of SFAS No. 142 from the date of acquisition. Goodwill and other intangibles of Carter Hoffmann are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are expected to be deductible for tax purposes.

3) Stock Split

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

4) Litigation Matters

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

5) Recently Issued Accounting Standards

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements". This statement defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles and expands disclosures about fair value measurements. This statement does not require any new fair value measurements. This statement is effective for interim reporting periods in fiscal years beginning after November 15, 2007. The company will apply this guidance prospectively. The company is continuing its process of determining what impact the application of this guidance will have on the company's financial position, results of operations or cash flows.

In September 2006, the FASB issued SFAS No. 158, "Employers' Accounting for Defined Benefit Pension and Other Postretirement Plans - an amendment of FASB Statements No. 87, 88, 106, and 132(R)". One provision of SFAS No. 158 requires the measurement of the company's defined benefit plan's assets and its obligation to determine the funded status be made as of the end of the fiscal year. This provision of SFAS No. 158 is effective for fiscal years ending after December 15, 2008. The company does not anticipate that the impact from the adoption of this provision of SFAS No. 158 will be significant to its financial statements.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115. This statement permits entities to choose to measure many financial instruments and certain other items at fair value. This statement is effective for fiscal years beginning after November 15, 2007. The company will apply this guidance prospectively. The company is continuing its process of determining what impact the application of this guidance will have on the company's financial position, results of operations or cash flows.

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6) Other Comprehensive Income

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

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

	Three Months Ended		Six Months Ended	
	Jun. 30, 2007	Jul. 1, 2006	Jun. 30, 2007	Jul. 1, 2006
Net earnings	$ 12,582	$ 11,090	$ 23,302	$ 19,141
Currency translation adjustment	244	318	276	264
Unrecognized pension benefit cost	-	-	-	-
Unrealized gain (loss) on interest rate swaps	37	58	(99)	210
Comprehensive income	$ 12,863	$ 11,466	$ 23,479	$ 19,615

Accumulated other comprehensive income is comprised of minimum pension liability of $(1.0) million, net of taxes of $(0.7) million, as of June 30, 2007 and December 30, 2006, foreign currency translation adjustments of $1.1 million as of June 30, 2007 and $0.9 million as of December 30, 2006 and an unrealized gain on interest rate swaps of $0.5 million, net of taxes of $0.3 million, as of June 30, 2007 and $0.6 million, net of taxes of $0.4 million as of December 30, 2006.

7) Inventories

Inventories are composed of material, labor and overhead and are stated at the lower of cost or market. Costs for inventory at two of the company's manufacturing facilities have been determined using the last-in, first-out ("LIFO") method. These inventories under the LIFO method amounted to $14.5 million at June 30, 2007 and $16.9 million at December 30, 2006 and represented approximately 25% and 36% of the total inventory in each respective period. Costs for all other inventory have been determined using the first-in, first-out ("FIFO") method. The company estimates reserves for inventory obsolescence and shrinkage based on its judgment of future realization. Inventories at June 30, 2007 and December 30, 2006 are as follows:

	Jun. 30, 2007	Dec. 30, 2006
	(in thousands)	
Raw materials and parts	$ 23,280	$ 15,795
Work-in-process	9,515	6,642
Finished goods	26,906	25,127
	59,701	47,564
LIFO adjustment	(1,022)	(272)
	$ 58,679	$ 47,292

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8) Accrued Expenses

Accrued expenses consist of the following:

	Jun. 30, 2007	Dec, 30, 2006
	(in thousands)	
Accrued payroll and related expenses	$ 12,444	$ 16,564
Accrued warranty	12,182	11,292
Accrued customer rebates	8,900	13,119
Accrued product liability and workers comp	5,639	4,361
Accrued commissions	3,501	2,471
Accrued professional services	3,463	2,523
Advance customer deposits	2,546	3,615
Other accrued expenses	10,439	15,691
	$ 59,114	$ 69,636

9) Warranty Costs

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

A rollforward of the warranty reserve is as follows:

	Six Months Ended Jun. 30, 2007 (in thousands)
Beginning balance	$ 11,292
Warranty expense	5,159
Warranty claims	(4,269)
Ending balance	$ 12,182

10) Financing Arrangements

	Jun. 30, 2007	Dec. 30, 2006
	(in thousands)	
Senior secured revolving credit line	$ 41,000	$ 30,100
Senior secured bank term loans	40,000	47,500
Foreign loan	4,428	5,202
Total debt	$ 85,428	$ 82,802
Less: Current maturities of long-term debt	16,572	16,838
Long-term debt	$ 68,856	$ 65,964

During the fourth quarter of 2005, the company amended its senior secured credit facility. Terms of the agreement currently provide for $40.0 million of term loans and $130.0 million of availability under a revolving credit line. As of June 30, 2007, the company had $81.0 million outstanding under its senior banking facility, including $41.0 million of borrowings under the revolving credit line. The company also had $3.6 million in outstanding letters of credit, which reduced the borrowing availability under the revolving credit line.

Borrowings under the senior secured credit facility are assessed at an interest rate of 1.0% above LIBOR for long-term borrowings or at the higher of the Prime rate and the Federal Funds Rate for short term borrowings. At June 30, 2007, the average interest rate on the senior debt amounted to 7.08%. The interest rates on borrowings under the senior bank facility may be adjusted quarterly based on the company's defined indebtedness ratio on a rolling four-quarter basis. Additionally, a commitment fee, based upon the indebtedness ratio is charged on the unused portion of the revolving credit line. This variable commitment fee amounted to 0.20% as of June 30, 2007.

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. As of June 30, 2007, these facilities amounted to $4.4 million in US dollars, including $1.5 million outstanding under a revolving credit facility, $2.1 million of a term loan and $0.8 million of a long term mortgage note. The interest rate on the revolving credit facility is assessed at 1.25% above Euro LIBOR, which amounted to 5.8% on June 30, 2007. The term loan matures in 2013 and the interest rate is assessed at 5.62%. The long-term mortgage note matures in March 2023 and is assessed interest at a fixed rate of 5.19%.

In December 2005, the company entered into a $3.2 million U.S. dollar secured term loan at its subsidiary in Spain. This term loan amortizes in equal monthly installments over a four-year period ending December 31, 2009. As of June 30, 2007, the company had fully repaid the borrowings under this loan.

The company has historically entered into interest rate swap agreements to effectively fix the interest rate on its outstanding debt. In January 2005, the company entered into an interest rate swap agreement for a notional amount of $70.0 million. This agreement swaps one-month LIBOR for a fixed rate of 3.78%. The notional amount amortizes consistent with the repayment schedule of the company's term loan maturing November 2009. The unamortized notional amount of this swap as of June 30, 2007 was $40.0 million. In January 2006, the company entered into an interest rate swap agreement for a notional amount of $10.0 million maturing on December 21, 2009. This agreement swaps one-month LIBOR for a fixed rate of 5.03%.

The terms of the senior secured credit facility limit the paying of dividends, capital expenditures and leases, and require, among other things, certain ratios of indebtedness and fixed charge coverage. The credit agreement also provides that if a material adverse change in the company's business operations or conditions occurs, the lender could declare an event of default. Under terms of the agreement a material adverse effect is defined as (a) a material adverse change in, or a material adverse effect upon, the operations, business properties, condition (financial and otherwise) or prospects of the company and its subsidiaries taken as a whole; (b) a material impairment of the ability of the company to perform under the loan agreements and to avoid any event of default; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against the company of any loan document. A material adverse effect is determined on a subjective basis by the company's creditors. At June 30, 2007, the company was in compliance with all covenants pursuant to its borrowing agreements.

11) Financial Instruments

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

Foreign Exchange: The company has entered into derivative instruments, principally forward contracts to reduce exposures pertaining to fluctuations in foreign exchange rates. As of June 30, 2007 the company had no forward contracts outstanding.

Interest Rate: In January 2005, the company entered into an interest rate swap with a notional amount of $70.0 million to fix the interest rate applicable to certain of its variable-rate debt. The notional amount of the swap amortizes consistent with the repayment schedule of the company's senior term loan maturing in November 2009. As of June 30, 2007, the unamortized balance of the interest rate swap was $40.0 million. The agreement swaps one-month LIBOR for a fixed rate of 3.78% and is in effect through November 2009. The company designated the swap as a cash flow hedge at its inception and all changes in the fair value of the swap are recognized in accumulated other comprehensive income. As of June 30, 2007, the fair value of this instrument was $0.8 million. The change in fair value of this swap agreement in the first six months of 2007 was a gain of less than $0.1 million, net of taxes.

In January 2006, the company entered into another interest rate swap with a notional amount of $10.0 million to fix the interest rate applicable to certain of its variable-rate debt. The agreement swaps one-month LIBOR for a fixed rate of 5.03% and is in effect through December 2009. The company designated the swap a cash flow hedge at is inception and all changes in fair value of the swap are recognized in accumulated other comprehensive income. As of June 30, 2007, the fair value of this instrument was less than $0.1 million. The fair value of this swap agreement in the first six months of 2007 did not materially change.

12) Segment Information

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

The Commercial Foodservice Equipment business group manufactures cooking equipment for the restaurant and institutional kitchen industry. This business segment has manufacturing facilities in California, Illinois, Michigan, New Hampshire, North Carolina, Vermont, Denmark and the Philippines. The Commercial Foodservice Equipment group manufactures conveyor ovens, convection ovens, fryers, ranges, toasters, combi ovens, steamers, broilers, deck ovens, baking ovens, proofers and counter-top cooking and warming equipment. This business segment’s principal product lines include Middleby Marshall® and CTX® conveyor oven equipment, Blodgett® convection ovens, conveyor ovens, deck oven equipment, Blodgett Combi® cooking equipment, Blodgett Range® ranges, Nu-Vu® baking ovens and proofers, Pitco Frialator® fryer equipment, Southbend® ranges, convection ovens and heavy-duty cooking equipment, Toastmaster® toasters and counterline cooking and warming equipment, Jade Range® ranges and ovens, Carter Hoffmann® warming, holding and transporting equipment, Houno® combi-ovens and baking ovens and MagiKitch'n® charbroilers and catering equipment.

The Food Processing Equipment business group manufactures cooking and packaging equipment for the food processing industry. This business segment has a manufacturing facility in Wisconsin. Its principal products include Alkar® batch ovens, conveyorized ovens and continuous process ovens and RapidPak® food packaging machinery.

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

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

Net Sales Summary
(dollars in thousands)

	Three Months Ended				Six Months Ended			
	Jun. 30, 2007		Jul. 1, 2006		Jun. 30, 2007		Jul. 1, 2006	
	Sales	Percent	Sales	Percent	Sales	Percent	Sales	Percent
Business Divisions:								