

MIDDLEBY CORP
Form 10-Q
May 09, 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 March 30, 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 May 3, 2013 there were 18,793,770 shares of the registrant's common stock outstanding.

THE MIDDLEBY CORPORATION AND SUBSIDIARIES

QUARTER ENDED March 30, 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	Mar 30, 2013	Dec 29, 2012
Current assets:		
Cash and cash equivalents	\$43,769	\$34,366
Accounts receivable, net of reserve for doubtful accounts of \$6,522 and \$6,377	189,971	162,230
Inventories, net	187,026	153,490
Prepaid expenses and other	25,821	19,151
Current deferred taxes	43,566	43,365
Total current assets	490,153	412,602
Property, plant and equipment, net of accumulated depreciation of \$64,591 and \$63,974	139,317	63,886
Goodwill	667,609	526,011
Other intangibles	379,432	233,341
Other assets	21,243	8,440
Total assets	\$1,697,754	\$1,244,280
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$1,669	\$1,850
Accounts payable	88,879	69,653
Accrued expenses	199,479	170,932
Total current liabilities	290,027	242,435
Long-term debt	636,757	258,220
Long-term deferred tax liability	43,947	44,838
Other non-current liabilities	52,942	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; 23,442,565 and 23,438,287 shares issued in 2013 and 2012, respectively	141	141
Paid-in capital	237,281	233,213
Treasury stock, at cost; 4,648,795 and 4,635,315 shares in 2013 and 2012, respectively	(148,443)	(147,352)
Retained earnings	602,325	576,424
Accumulated other comprehensive loss	(17,223)	(12,399)
Total stockholders' equity	674,081	650,027
Total liabilities and stockholders' equity	\$1,697,754	\$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	
	Mar 30, 2013	Mar 31, 2012
Net sales	\$327,451	\$228,823
Cost of sales	206,183	141,340
Gross profit	121,268	87,483
Selling and distribution expenses	36,152	25,175
General and administrative expenses	42,921	25,648
Income from operations	42,195	36,660
Net interest expense and deferred financing amortization, net	3,434	2,091
Other expense, net	213	1,267
Earnings before income taxes	38,548	33,302
Provision for income taxes	12,646	11,207
Net earnings	\$25,902	\$22,095
Net earnings per share:		
Basic	\$1.41	\$1.22
Diluted	\$1.39	\$1.20
Weighted average number of shares		
Basic	18,395	18,148
Dilutive common stock equivalents ¹	223	317
Diluted	18,618	18,465
Comprehensive income	\$21,078	\$28,094

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)

	Three Months Ended	
	Mar 30, 2013	Mar 31, 2012
Cash flows from operating activities--		
Net earnings	\$25,902	\$22,095
Adjustments to reconcile net earnings to net cash provided by operating activities--		
Depreciation and amortization	14,023	7,047
Non-cash share-based compensation	2,965	2,747
Deferred taxes	1,115	2,310
Unrealized loss on derivative financial instruments	5	1
Changes in assets and liabilities, net of acquisitions		
Accounts receivable, net	(8,603	) 15,409
Inventories, net	(13,229	) (9,410)
Prepaid expenses and other assets	(5,474	) (7,998)
Accounts payable	(941	) (3,228)
Accrued expenses and other liabilities	(2,232	) (18,220)
Net cash provided by operating activities	13,531	10,753
Cash flows from investing activities--		
Additions to property and equipment	(3,923	) (1,584)
Acquisition of Danfotech, net of cash acquired	—	361
Acquisition of Baker	—	(10,250)
Acquisition of Stewart	(5,000) —
Acquisition of Viking, net of cash acquired	(372,836) —
Net cash used in investing activities	(381,759	) (11,473)
Cash flows from financing activities--		
Net proceeds under current revolving credit facilities	378,500	—
Net (repayments) under previous revolving credit facilities	—	(2,200)
Net (repayments) proceeds under foreign bank loan	(47	) 1,196
Net repayments under other debt arrangement	(5) —
Repurchase of treasury stock	(1,091	) (11,046)
Debt issuance costs	(11) —
Excess tax benefit related to share-based compensation	1,089	—
Net proceeds from stock issuances	13	544
Net cash (used in) provided by financing activities	378,448	(11,506)
Effect of exchange rates on cash and cash equivalents	\$(817	) \$723
Changes in cash and cash equivalents--		
Net increase (decrease) in cash and cash equivalents	9,403	(11,503)
Cash and cash equivalents at beginning of year	34,366	40,216
Cash and cash equivalents at end of period	\$43,769	\$28,713

See accompanying notes

THE MIDDLEBY CORPORATION AND SUBSIDIARIES
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

March 30, 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 March 30, 2013 and December 29, 2012, and the results of operations for the three months ended March 30, 2013 and March 31, 2012 and cash flows for the three months ended March 30, 2013 and March 31, 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 \$2.7 million for the first quarter periods ended March 30, 2013 and March 31, 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 March 30, 2013, there were no significant changes in the total amount of liability for unrecognized tax benefits.

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 \$0.8 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	2008 – 2012
South Korea	2006 – 2012
Spain	2008 – 2012
Taiwan	2008 – 2012
United Kingdom	2008 – 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 March 30, 2013				
Financial Assets:				
Pension plans	\$24,346	\$935	—	\$25,281
Financial Liabilities:				
Interest rate swaps	—	\$3,369	—	\$3,369
Contingent consideration	—	—	\$8,210	\$8,210
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 relates to the earnout provisions recorded in conjunction with the acquisitions of CookTek, Danfotech, Stewart and Nieco.

E) Consolidated Statements of Cash Flows

Cash paid for interest was \$3.1 million and \$1.9 million for the three months ended March 30, 2013 and March 31, 2012, respectively. Cash payments totaling \$8.4 million and \$10.5 million were made for income taxes for the three months ended March 30, 2013 and March 31, 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 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.

Beech

On April 12, 2011, the company completed its acquisition of all of the capital stock of J.W. Beech Pty. Ltd., together with its subsidiary, Beech Ovens Pty. Ltd. (collectively "Beech"), a leading manufacturer of stone hearth ovens for the commercial foodservice industry for a purchase price of approximately \$13.0 million, net of cash acquired. During the first quarter of 2012, the company finalized the working capital provision provided for by the purchase agreement resulting in no additional payments.

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

	(as initially reported) Apr 12, 2011	Measurement Period Adjustments	(as adjusted) Apr 12, 2011	
Cash	\$525	\$—	\$525	
Current assets	1,145	(299	) 846	
Property, plant and equipment	57	—	57	
Goodwill	11,433	(192	) 11,241	
Other intangibles	2,317	(294	) 2,023	
Current liabilities	(1,100	) (41	) (1,141)
Other non-current liabilities	(893	) 826	(67)