

MIDDLEBY CORP  
Form 10-Q  
November 08, 2012

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 29, 2012

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

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



THE MIDDLEBY CORPORATION AND SUBSIDIARIES

QUARTER ENDED September 29, 2012

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

See accompanying notes

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

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



See accompanying notes

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THE MIDDLEBY CORPORATION AND SUBSIDIARIES  
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

September 29, 2012

(Unaudited)

1) Summary of Significant Accounting  
Policies

A) Basis of Presentation

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

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

Accordingly, the company believes that this accounting change is preferable in its circumstances. This change constitutes a change in accounting principle under Accounting Standards Codification ("ASC") 250 "Accounting Changes and Error Corrections," and had no impact on the company's consolidated balance sheet, statement of operations or cash flows. This change is not applied retrospectively as it is impracticable to do so because retrospective application would require the application of significant estimates and assumptions with the use of hindsight. Accordingly, the change will be applied prospectively.

In the opinion of management, the financial statements contain all adjustments necessary to present fairly the financial position of the company as of September 29, 2012 and December 31, 2011, and the results of operations for the three and nine months ended September 29, 2012 and October 1, 2011 and cash flows for the nine months ended September 29, 2012 and October 1, 2011.

Use of Estimates

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

B) Non-Cash Share-Based Compensation

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



## C) Income Taxes

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

As of December 31, 2011, the total amount of liability for unrecognized tax benefits related to federal, state and foreign taxes was approximately \$15.6 million (of which \$14.1 million would impact the effective tax rate if recognized) plus approximately \$1.9 million of accrued interest and \$2.0 million of penalties. The company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. Interest of \$0.1 million was recognized in the third quarter of 2012 and 2011, respectively. Penalties of \$0.2 million and \$0.1 million were recognized in the third quarter of 2012 and 2011, respectively. In the first nine months ended September 29, 2012, the company recognized a benefit of \$4.1 million for unrecognized tax benefits related to reduced tax exposures. It is reasonably possible that the amounts of unrecognized tax benefits associated with state, federal and foreign tax positions may decrease over the next twelve months due to expiration of a statute or completion of an audit. The company believes that it is reasonably possible that approximately \$0.1 million of its currently remaining unrecognized tax benefits may be recognized over the next twelve months as a result of lapses of statutes of limitations.

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

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

## D) Fair Value Measures

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

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

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

Level 3 – Unobservable inputs based on our own assumptions.

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

	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Total
As of September 29, 2012				
Financial Assets:				
Pension plans	\$21,966	\$1,538	—	\$23,504
Financial Liabilities:				
Interest rate swaps	—	\$3,318	—	\$3,318
Contingent consideration	—	—	\$5,845	\$5,845
As of December 31, 2011				
Financial Assets:				
Pension plans	\$21,229	\$1,297	—	\$22,526
Financial Liabilities:				
Interest rate swaps	—	\$3,216	—	\$3,216
Contingent consideration	—	—	\$3,398	\$3,398

The contingent consideration relates to the earnout provisions recorded in conjunction with the acquisitions of CookTek, Danfotech and Stewart.

## E) Consolidated Statements of Cash Flows

Cash paid for interest was \$5.8 million and \$6.0 million for the nine months ended September 29, 2012 and October 1, 2011, respectively. Cash payments totaling \$32.4 million and \$26.4 million were made for income taxes for the nine months ended September 29, 2012 and October 1, 2011, 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	)
Net assets acquired and liabilities assumed	\$13,484	\$—	\$13,484	

The goodwill and \$1.9 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 \$0.1 million allocated to backlog which was amortized over a period of 3 months. Goodwill and other intangibles of Beech are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are expected to be deductible for tax purposes.

## Lincat Group

On May 27, 2011, the company completed its acquisition of Lincat Group PLC (“Lincat”), a leading manufacturer of ranges, ovens, and counterline equipment for the commercial foodservice industry for a purchase price of approximately \$82.1 million, net of cash acquired.

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

	(as initially reported) May 27, 2011	Measurement Period Adjustments	(as adjusted) May 27, 2011	
Cash	\$12,392	\$—	\$12,392	
Current assets	16,992	(29	) 16,963	
Property, plant and equipment	14,368	—	14,368	
Goodwill	45,765	(7,274	) 38,491	
Other intangibles	31,343	1,976	33,319	
Current liabilities	(10,924	) 1,174	(9,750	)
Long-term deferred tax liability	(13,803	) 4,153	(9,650	)
Other non-current liabilities	(1,611	) —	(1,611	)
Net assets acquired and liabilities assumed	\$94,522	\$—	\$94,522	

The goodwill and \$15.2 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also includes \$17.6 million allocated to customer relationships and \$0.5 million allocated to backlog, which are being amortized over periods of 5 years and 3 months, respectively. Goodwill and other intangibles of Lincat are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

## Danfotech

On July 5, 2011, the company completed its acquisition of all of the capital stock of Danfotech Inc. (“Danfotech”), a manufacturer of meat presses and defrosting equipment for the food processing industry for a purchase price of approximately \$6.1 million, net of cash acquired. The purchase price is subject to adjustment based upon a working capital provision within the purchase agreements. Pursuant to terms of the purchase agreement, in December 2011 the company purchased additional assets from the sellers of Danfotech for approximately \$0.7 million. An additional contingent payment is also payable upon the achievement of certain sales targets. During the first quarter of 2012, the company finalized the working capital provision provided for by the purchase agreement resulting in a refund from the seller in the amount of \$0.4 million.

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

	(as initially reported) July 5, 2011	Measurement Period Adjustments	(as adjusted) July 5, 2011
Cash	\$ 165	\$—	\$ 165
Deferred tax asset	—	235	235
Current assets	1,073	(370)	) 703
Property, plant and equipment	102	(55)	) 47
Goodwill	3,423	2,255	5,678
Other intangibles	1,864	(778)	) 1,086
Other assets	4	—	4
Current liabilities	(309)	) (807)	) (1,116)
Long-term deferred tax liability	(46)	) (91)	) (137)
Other non-current liabilities	—	(750)	) (750)
Consideration paid at closing	\$6,276	\$(361)	) \$5,915
Additional assets acquired post closing	—	730	730
Contingent consideration	1,500	—	1,500
Net assets acquired and liabilities assumed	\$7,776	\$369	\$8,145

The long term deferred tax liabilities amounted to \$0.1 million. This net liability represents less than \$0.1 million arising from the difference between the book and tax basis of tangible assets and \$0.1 million related to the difference between the book and tax basis of identifiable intangible assets.

The goodwill and \$0.6 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also includes \$0.4 million allocated to customer relationships, \$0.1 million allocated to developed technology and less than \$0.1 million allocated to backlog, which are being amortized over periods of 4 years, 3 years and 3 months, respectively. Goodwill and other intangibles of Danfotech are allocated to the Food Processing Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.



## Maurer

On July 22, 2011, the company completed its acquisition of substantially all of the assets of Maurer-Atmos GmbH (“Maurer”), a manufacturer of batch ovens and thermal processing systems for the food processing industry for a purchase price of approximately \$3.3 million. In the fourth quarter of 2011, pursuant to terms of the purchase agreement, the purchase price was adjusted to reflect the final valuation of acquired inventories, resulting in a net reduction of approximately \$0.6 million.

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

	(as initially reported) July 22, 2011	Measurement Period Adjustments	(as adjusted) July 22, 2011
Current assets	\$1,673	\$(668	) \$1,005
Property, plant and equipment	628	—	628
Goodwill	870	350	1,220
Other intangibles	922	—	922
Current liabilities	(246	) (264	) (510
Net assets acquired and liabilities assumed	\$3,847	\$(582	) \$3,265

The goodwill and \$0.6 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also includes \$0.3 million allocated to customer relationships and less than \$0.1 million allocated to developed technology, which are being amortized over periods of 4 years and 3 years, respectively. Goodwill and other intangibles of Maurer are allocated to the Food Processing Equipment Group for segment reporting purposes. These assets are expected to be deductible for tax purposes.

## Auto-Bake

On August 1, 2011, the company completed its acquisition of all of the capital stock of Auto-Bake Proprietary Limited (“Auto-Bake”), a manufacturer of automated baking ovens for the food processing industry for a purchase price of approximately \$22.5 million, net of cash acquired. During the fourth quarter of 2011, the company finalized the working capital provision provided for by the purchase agreement resulting in no additional adjustment to the purchase price.

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

	(as initially reported) Aug 1, 2011	Measurement Period Adjustments	(as adjusted) Aug 1, 2011	
Cash	\$ 110	\$—	\$ 110	
Current assets	3,209	47	3,256	
Property, plant and equipment	477	—	477	
Goodwill	16,259	1,865	18,124	
Other intangibles	6,784	(2,726	) 4,058	
Other assets	336	(11	) 325	
Current liabilities	(2,506	) 8	(2,498	)
Long-term deferred tax liability	(2,035	) 817	(1,218	)
Net assets acquired and liabilities assumed	\$22,634	\$—	\$22,634	

The goodwill and \$2.0 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also includes \$1.9 million allocated to customer relationships and \$0.2 million allocated to backlog, which are being amortized over periods of 5 years and 3 months, respectively. Goodwill and other intangibles of Auto-Bake are allocated to the Food Processing Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

## 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 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 2, 2011	Measurement Period Adjustments	(as adjusted) Dec 2, 2011	
Cash	\$427	\$—	\$427	
Deferred tax asset	390	—	390	
Current assets	4,245	—	4,245	
Property, plant and equipment	1,773	—	1,773	
Goodwill	15,237	403	15,640	
Other intangibles	5,810	—	5,810	
Other assets	9	—	9	
Current liabilities	(3,334	) —	(3,334	)
Long-term deferred tax liability	(2,395	) —	(2,395	)
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 \$(2.5) 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. 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.

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.

## 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 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 21, 2011	Measurement Period Adjustments	(as adjusted) Dec 21, 2011	
Cash	\$18,201	\$—	\$18,201	
Current assets	14,612	(875	) 13,737	
Property, plant and equipment	941	489	1,430	
Goodwill	23,789	386	24,175	
Other intangibles	12,155	—	12,155	
Other assets	25	—	25	
Current liabilities	(18,440	) —	(18,440	)
Long-term deferred tax liability	(3,975	) —	(3,975	)
Other non-current liabilities	(450	) —	(450	)
Net assets acquired and liabilities assumed	\$46,858	\$—	\$46,858	

The goodwill and \$3.9 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also includes \$1.3 million allocated to customer relationships, \$1.8 million allocated to developed technology and \$5.2 million allocated to backlog, which are being amortized over periods of 5 years, 6 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.

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.

## Baker

On March 14, 2012, the company completed its acquisition of certain assets of Turkington USA, LLC (now known as "Baker"), a manufacturer of automated baking ovens for the food processing industry, for a purchase price of approximately \$10.3 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) Mar 14, 2012	Measurement Period Adjustments	(as adjusted) Mar 14, 2012	
Current assets	\$4,617	\$(736	) \$3,881	
Property, plant and equipment	221	—	221	
Goodwill	5,797	(14	) 5,783	
Other intangibles	—	750	750	
Current liabilities	(385	) —	(385	)
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.

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.

## 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 \$28.0 million. An additional payment is also payable upon the achievement of certain financial targets. The purchase price is subject to adjustment based upon a working capital provision within the purchase agreement. The company expects to finalize this in the fourth quarter of 2012.

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) Sep 5, 2012	
Current assets	\$ 11,839	
Property, plant and equipment	653	
Goodwill	17,886	
Other intangibles	6,850	
Current liabilities	(5,228	)
Other non-current liabilities	(4,000	)
Consideration paid at closing	\$ 28,000	
Contingent consideration	4,000	
Net assets acquired and liabilities assumed	\$ 32,000	

The goodwill and \$3.5 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also includes \$2.0 million allocated to customer relationships, \$0.4 million allocated to developed technology and \$1.0 million allocated to backlog, which are being amortized over periods of 5 years, 5 years and 3 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 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 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 \$4.0 million.

## 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

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." This update provides clarification on existing fair value measurement requirements, amends existing guidance primarily related to fair value measurements for financial instruments, and requires enhanced disclosures on fair value measurements. The additional disclosures are specific to Level 3 fair value measurements, transfers between Level 1 and Level 2 of the fair value hierarchy, financial instruments not measured at fair value and use of an asset measured or disclosed at fair value differing from its highest and best use. The company adopted the provisions of ASU No. 2011-04 on January 1, 2012. There was no impact to the company's financial position, results of operations or cash flows.

In June 2011 and December 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income" and ASU No. 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05", respectively. ASU No. 2011-05 eliminated the option to present the components of other comprehensive income in the statement of changes in stockholders' equity. Instead, entities have the option to present the components of net income, the components of other comprehensive income and total comprehensive income in a single continuous statement or in two separate but consecutive statements. 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. 2011-05 on January 1, 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. For interim reporting purposes, the company has elected to present comprehensive income in a single continuous statement now referred to as the Condensed Consolidated Statements of Comprehensive Income.

In September 2011, the FASB issued ASU No. 2011-08, "Intangibles – Goodwill and Other (Topic 350)." This ASU will allow an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. The ASU also amends previous guidance by expanding upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Also, the ASU provides additional examples of events and circumstances that an entity having a reporting unit with a zero or negative carrying amount should consider in determining whether to measure an impairment loss, if any, under the second step of the goodwill impairment test. The company adopted the provisions of ASU 2011-08 on January 1, 2012. There was no impact to the company's financial position, results of operation or cash flows. The company will determine whether to apply the qualitative evaluation allowed under this ASU in connection with the company's annual goodwill impairment test.

On July 27, 2012, the FASB issued ASU 2012-02, "Intangibles - Goodwill and Other (Topic 350)". Similar to ASU 2011-08, this ASU amends the guidance in ASC 350-30. While ASU 2011-08 allows an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit, 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 company is currently evaluating its adoption approach to this guidance.





## 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."

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

	Three Months Ended		Nine Months Ended	
	Sep 29, 2012	Oct 1, 2011	Sep 29, 2012	Oct 1, 2011
Net earnings	\$29,769	\$23,461	\$82,909	\$60,914
Currency translation adjustment	6,042	(11,053)	4,500	(9,209)
Pension liability adjustment, net of tax	130	—	271	
Unrealized gain on interest rate swaps, net of tax	15	(527)	(38)	(725)
Comprehensive income	\$35,956	\$11,881	\$87,642	\$50,980

Accumulated other comprehensive loss is comprised of unrecognized pension benefit costs of \$7.3 million and \$7.6 million, net of taxes as of September 29, 2012 and December 31, 2011, cumulative foreign currency translation losses of \$6.7 million and \$11.2 million as of September 29, 2012 and December 31, 2011, respectively and an unrealized loss on interest rate swaps of \$1.7 million, net of taxes as of September 29, 2012 and December 31, 2011, respectively.

## 6) 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 \$20.0 million at September 29, 2012 and \$18.6 million at December 31, 2011 and represented approximately 13.6% and 15.0% 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 September 29, 2012 and December 31, 2011 are as follows:

	Sep 29, 2012 (in thousands)	Dec 31, 2011
Raw materials and parts	\$75,616	\$69,576
Work-in-process	20,529	15,204
Finished goods	50,617	39,261
	146,762	124,041
LIFO reserve	259	259
	\$147,021	\$124,300

## 7) Goodwill

Changes in the carrying amount of goodwill for the nine months ended September 29, 2012 are as follows (in thousands):

	Commercial Foodservice	Food Processing	Total
Balance as of December 31, 2011	\$375,352	\$102,460	\$477,812
Goodwill acquired during the year	—	23,669	23,669
Measurement period adjustments to goodwill acquired in prior year	528	351	879
Exchange effect	2,342	481	2,823
Balance as of September 29, 2012	\$378,222	\$126,961	\$505,183

## 8) Accrued Expenses

Accrued expenses consist of the following:

	Sep 29, 2012 (in thousands)	Dec 31, 2011
Accrued payroll and related expenses	\$38,056	\$41,434
Advanced customer deposits	35,083	33,246
Accrued customer rebates	18,760	23,136
Accrued warranty	16,586	13,842
Accrued product liability and workers compensation	12,525	10,771
Accrued agent commission	10,029	8,668
Accrued professional services	7,496	7,497
Other accrued expenses	17,327	31,798
	\$155,862	\$170,392

## 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 29, 2012 (in thousands)	
Beginning balance	\$13,842	
Warranty reserve related to acquisitions	592	
Warranty expense	20,911	
Warranty claims	(18,759	)
Ending balance	\$16,586	

## 10) Financing Arrangements

	Sep 29, 2012 (in thousands)	Dec 31, 2011
Senior secured revolving credit line	\$264,500	\$309,400
Foreign loans	4,814	7,935
Total debt	\$269,314	\$317,335
Less: Current maturities of long-term debt	3,409	315,831
Long-term debt	\$265,905	\$1,504

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 29, 2012, the company had \$264.5 million of borrowings outstanding under this facility. The company also had \$6.6 million in outstanding letters of credit as of September 29, 2012, which reduces the borrowing availability under the revolving credit line. Remaining borrowing availability under this facility was \$728.9 million at September 29, 2012.

At September 29, 2012, borrowings under the senior secured credit facility are assessed at an interest rate of 1.50% above LIBOR for long-term borrowings or at the higher of the Prime rate and the Federal Funds Rate. At September 29, 2012 the average interest rate on the senior debt amounted to 1.82%. 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 0.25% as of September 29, 2012.

In August 2006, the company completed its acquisition of Houno A/S in Denmark. This acquisition was funded in part with locally established debt facilities with borrowings in Danish Krone. On September 29, 2012 these facilities amounted to \$3.0 million in U.S. dollars, including \$1.5 million outstanding under a revolving credit facility and \$1.5 million of a term loan. The interest rate on the revolving credit facility is assessed at 1.25% above Euro LIBOR, which amounted to 2.80% on September 29, 2012. The term loan matures in 2013 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. On September 29, 2012 these facilities amounted to \$1.6 million in U.S. dollars. The interest rate on the credit facilities is variable based on the three-month Euro LIBOR. At September 29, 2012, the average interest rate on these facilities was approximately 5.20%. The facilities mature in April 2015.

In December 2011, the company completed its acquisition of Armor Inox in France. This acquisition was funded in part with locally established debt facilities with borrowings denominated in Euro. On September 29, 2012, these facilities amounted to \$0.2 million in U.S. dollars. The interest rate on the credit facilities is variable based on the three-month Euro LIBOR. The facilities mature in April 2015. At September 29, 2012, the average interest rate on these facilities was approximately 1.00%.

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 below the rate available in the market, which causes the fair value of debt to fall below the carrying 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 29, 2012 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 29, 2012		Dec 31, 2011	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Total debt	\$269,314	\$256,064	\$317,335	\$315,749

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.

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 29, 2012 the company had the following interest rate swaps in effect:

Notional Amount	Fixed Interest Rate	Effective Date	Maturity Date
\$20,000,000	1.800%	11/23/09	11/23/12
20,000,000	1.560%	03/11/10	12/11/12
15,000,000	0.950%	08/06/10	12/06/12
25,000,000	1.610%	02/23/11	02/24/14
25,000,000	2.520%	02/23/11	02/23/16
25,000,000	0.975%	07/18/11	07/18/14
15,000,000	1.185%	09/12/11	09/12/16
15,000,000	0.620%	09/12/11	09/11/14

The terms of the senior secured credit facility limit the paying of dividends, capital expenditures and leases, and require, among other things, a maximum ratio of indebtedness to earnings before interest, taxes, depreciation and amortization ("EBITDA") of 3.5 and a minimum EBITDA to fixed charges ratio of 1.25. The credit agreement also provides that if a material adverse change in the company's business operations or conditions occurs, the lender could declare an event of default. Under terms of the agreement, a material adverse effect is defined as (a) a material adverse change in, or a material adverse effect upon, the operations, business properties, condition (financial and otherwise) or prospects of the company and its subsidiaries taken as a whole; (b) a material impairment of the ability of the company to perform under the loan agreements and to avoid any event of default; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against the company of any loan document. A material adverse effect is determined on a subjective basis by the company's creditors. The credit facility is secured by the capital stock of the company's domestic subsidiaries, 65% of the capital stock of the company's foreign subsidiaries and substantially all other assets of the company. At September 29, 2012, 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 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 29, 2012. The fair value of the forward contracts was an asset of \$0.2 million at the end of the third quarter of 2012.

Sell		Purchase		Maturity
25,000,000	British Pounds	31,456,000	Euro Dollars	December 28, 2012
9,500,000	British Pounds	15,346,000	US Dollars	December 28, 2012
1,800,000	Canadian Dollars	1,829,000	US Dollars	December 28, 2012
28,000,000	Euro Dollars	36,160,000	US Dollars	December 28, 2012
45,000,000	Mexican Pesos	3,462,000	US Dollars	December 28, 2012
500,000	Australian Dollars	516,000	US Dollars	December 28, 2012
11,000,000	Danish Kroner	1,903,000	US Dollars	December 28, 2012



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 29, 2012, the fair value of these instruments was a liability of \$3.3 million. The change in fair value of these swap agreements in the first nine months of 2012 was a loss of \$0.1 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 29, 2012	Dec 31, 2011
Fair value	Other non-current liabilities	\$ (3,318 )	\$ (3,216 )

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

	Presentation of Gain/(loss)	Three Months Ended Sep 29, 2012	Oct 1, 2011	Nine Months Ended Sep 29, 2012	Oct 1, 2011
Gain/(loss) recognized in accumulated other comprehensive income	Other comprehensive income	\$ (486 )	\$ (1,813 )	\$ (1,638 )	\$ (3,733 )
Gain/(loss) reclassified from accumulated other comprehensive income (effective portion)	Interest expense	\$ (501 )	\$ (896 )	\$ (1,518 )	\$ (2,473 )
Gain/(loss) recognized in income (ineffective portion)	Other expense	\$ 5	\$ (22 )	\$ 18	\$ (19 )

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 two 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, Nu-Vu, PerfectFry, Pitco, Southbend, Star, Toastmaster, TurboChef and Wells.

The Food Processing Equipment Group manufactures preparation, cooking, packaging 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, automated thermal processing systems, automated loading and unloading systems, meat presses, breadings, 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 and Stewart.

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)

	Three Months Ended				Nine Months Ended			
	Sep 29, 2012		Oct 1, 2011		Sep 29, 2012		Oct 1, 2011	
Business Segments:	Sales	Percent	Sales	Percent	Sales	Percent	Sales	Percent
Commercial Foodservice	\$198,615	77.1	\$189,133	86.5	\$573,431	76.8	\$521,137	85.1
Food Processing	59,084	22.9	29,587	13.5	173,131	23.2	91,010	14.9
Total	\$257,699	100.0 %	\$218,720	100.0 %	\$746,562	100.0 %	612,147	100.0 %

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

	Commercial Foodservice	Food Processing	Corporate and Other(2)	Total
Three Months Ended September 29, 2012				
Net sales	\$198,615	\$59,084	\$—	\$257,699
Income 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 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
Three Months Ended October 1, 2011				
Net sales	\$189,133	\$29,587	\$—	\$218,720
Income from operations	47,875	2,484	(13,173)	) 37,186
Depreciation and amortization expense	3,995	1,106	233	5,334
Net capital expenditures	1,533	23	173	1,729
Nine Months Ended October 1, 2011				
Net sales	\$521,137	\$91,010	\$—	\$612,147
Income from operations	127,118	13,706	(37,026)	) 103,798
Depreciation and amortization expense	11,886	2,207	574	14,667
Net capital expenditures	4,327	162	391	4,880
Total assets	827,276	139,618	63,473	1,030,367

(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 29, 2012	Oct 1, 2011
United States and Canada	\$50,415	\$41,663
Asia	3,486	2,837
Europe and Middle East	19,042	19,380
Latin America	1,260	1,181
Total international	\$23,788	\$23,398
	\$74,203	\$65,061

Net sales (in thousands):

	Three Months Ended		Nine Months Ended	
	Sep 29, 2012	Oct 1, 2011	Sep 29, 2012	Oct 1, 2011
United States and Canada	\$176,982	\$149,891	\$511,475	\$446,071
Asia	23,495	17,228	66,634	41,052
Europe and Middle East	42,289	41,628	123,165	95,248
Latin America	14,933	9,973	45,288	29,776
Total international	\$80,717	\$68,829	\$235,087	\$166,076
	\$257,699	\$218,720	\$746,562	\$612,147

## 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)Subsequent Event

On October 31, 2012, the company completed its acquisition of Nieco Corporation (“Nieco”), a leading manufacturer of automatic broilers for the commercial foodservice industry located in Windsor, California with annual revenues of approximately \$20 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 2011 Annual Report on Form 10-K.

## Net Sales Summary

(dollars in thousands)

	Three Months Ended				Nine Months Ended			
	Sep 29, 2012		Oct 1, 2011		Sep 29, 2012		Oct 1, 2011	
	Sales	Percent	Sales	Percent	Sales	Percent	Sales	Percent
Business Segments:								
Commercial Foodservice	\$ 198,615	77.1	\$ 189,133	86.5	\$ 573,431	76.8	\$ 521,137	85.1
Food Processing	59,084	22.9	29,587	13.5	173,131	23.2	91,010	14.9
Total	\$ 257,699	100.0 %	\$ 218,720	100.0 %	\$ 746,562	100.0 %	\$ 612,147	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 29, 2012	Oct 1, 2011	Sep 29, 2012	Oct 1, 2011
Net sales	100.0	% 100.0 %	100.0	% 100.0 %
Cost of sales	61.0	60.1	61.2	60.1
Gross profit	39.0	39.9	38.8	39.9
Selling, general and administrative expenses	20.6	22.9	21.5	22.9
Income from operations	18.4	17.0	17.3	17.0
Net interest expense and deferred financing amortization	1.1	1.1	0.9	1.1
Other expense (income), net	1.1	(0.2)	0.5	0.2
Earnings before income taxes	16.2	16.1	15.9	15.7
Provision for income taxes	4.6	5.4	4.8	5.7
Net earnings	11.6	% 10.7	% 11.1	% 10.0



Three Months Ended September 29, 2012 Compared to Three Months Ended October 1, 2011

**NET SALES.** Net sales for the third quarter of fiscal 2012 were \$257.7 million as compared to \$218.7 million in the third quarter of 2011. Of the \$39.0 million increase in net sales, \$17.6 million, or 8.0%, was attributable to acquisition growth, resulting from the fiscal 2011 acquisitions of Danfotech, Maurer, Auto-Bake, Drake and Armor Inox and the fiscal 2012 acquisitions of Baker and Stewart. Excluding acquisitions, net sales increased \$21.4 million, or 9.8%, from the prior year, reflecting a net sales increase of 5.0% at the Commercial Foodservice Equipment Group and an increase of 40.2% at the Food Processing Equipment Group.

Net sales of the Commercial Foodservice Equipment Group increased by \$9.5 million, or 5.0%, to \$198.6 million in the third quarter of 2012 as compared to \$189.1 million in the prior year quarter. International sales decreased \$1.8 million, or 3.1%, to \$55.5 million, as compared to \$57.3 million in the prior year quarter. The decline in international sales reflects lower sales in Europe due to economic conditions, partially offset by increased sales in Asia and Latin America as the company continues to realize growth in emerging markets due to expansion of restaurant chains. Domestically, the company realized a sales increase of \$11.3 million, or 8.6%, to \$143.1 million, as compared to \$131.8 million in the prior year quarter. This increase in domestic sales includes increased sales with major restaurant chains on new product initiatives and reflects improvements in general market conditions.

Net sales of the Food Processing Equipment Group increased by \$29.5 million, or 99.7%, to \$59.1 million in the third quarter of 2012 as compared to \$29.6 million in the prior year quarter. Net sales resulting from the acquisitions of Maurer, Auto-Bake, Drake, Armor Inox, Baker and Stewart, which were acquired on July 22, 2011, August 1, 2011, December 2, 2011, December 21, 2011, March 14, 2012 and September 5, 2012, respectively, accounted for an increase of \$17.6 million during the third quarter of 2012. Excluding the impact of these acquisitions, net sales of Food Processing Equipment increased by \$11.9 million, or 40.2%, as compared to the prior year quarter. International sales increased by \$13.7 million, or 119.1%, to \$25.2 million, as compared to \$11.5 million in the prior year quarter. This includes an increase of \$10.8 million from the recent acquisitions. Domestically, the company realized a sales increase of \$15.8 million, or 87.3%, to \$33.9 million, as compared to \$18.1 million in the prior year quarter. This includes an increase of \$6.8 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.

**GROSS PROFIT.** Gross profit increased to \$100.4 million in the third quarter of 2012 from \$87.3 million in the prior year period, reflecting the impact of higher sales volumes. The gross margin rate decreased from 39.9% in the third quarter of 2011 to 39.0% in the third quarter of 2012. The net decrease in the gross margin rate reflects the impact of lower margins at certain of the newly acquired companies and the effect of a higher sales mix of sales from the Food Processing Equipment Group at a lower gross margin rate.

Gross profit at the Commercial Foodservice Equipment Group increased by \$2.1 million, or 2.7%, to \$80.5 million in the third quarter of 2012 as compared to \$78.4 million in the prior year quarter. The gross margin rate declined to 40.5% as compared to 41.5% in the prior year quarter.

Gross profit at the Food Processing Equipment Group increased by \$10.6 million, or 109.3%, to \$20.3 million in the third quarter of 2012 as compared to \$9.7 million in prior year quarter. The gross margin rate increased to 34.3% as compared to 32.8% in the prior year quarter. Gross profit from the acquisitions of Maurer, Auto-Bake, Drake, Armor Inox, Baker and Stewart, accounted for approximately \$5.4 million of the increase. Excluding the recent acquisition, the gross profit increased by approximately \$5.2 million.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Combined selling, general and administrative expenses increased from \$50.1 million in the third quarter of 2011 to \$53.0 million in the third quarter of 2012. As a percentage of net sales, operating expenses were 22.9% in the third quarter of 2011 as compared to 20.6% in the third quarter of 2012. Selling expenses increased from \$24.6 million in the third quarter of 2011 to \$26.0 million in the third quarter of 2012. Selling expenses reflect increased costs of \$2.5 million associated with the Maurer, Auto-Bake,



Drake, Armor Inox, Baker and Stewart acquisitions. The increase in selling expenses related to acquisitions is offset by decreases of \$0.5 million due to sales incentive programs, \$0.3 million in trade advertising and \$0.3 million in convention and trade show costs. General and administrative expenses increased from \$25.6 million in the third quarter of 2011 to \$27.1 million in the third quarter of 2012. General and administrative expenses reflect \$3.1 million of increased costs associated with the Maurer, Auto-Bake, Drake, Armor Inox, Baker and Stewart acquisitions including \$1.4 million of non-cash intangible amortization expense. The increase in general and administrative expense related to acquisitions is offset by a net decrease of \$1.9 million in non-cash share-based and incentive compensation.

**NON-OPERATING EXPENSES.** Interest and deferred financing amortization costs increased to \$3.0 million in the third quarter of 2012 as compared to \$2.3 million in the third quarter of 2011. Other expense was \$2.8 million in the third quarter of 2012 as compared to \$0.4 million of other income in the prior year third quarter and consists primarily of foreign exchange gains and losses.

**INCOME TAXES.** A tax provision of \$11.9 million, at an effective rate of 28.6%, was recorded during the third quarter 2012, as compared to an \$11.8 million provision a 33.5% effective rate in the prior year quarter. In comparison to the prior year quarter, the tax provision reflects reduced state tax exposure related to prior year refunds, a lower effective rate on increased income in lower tax rate foreign jurisdictions and increased deductions related to U.S. manufacturing activities.

Nine Months Ended September 29, 2012 Compared to Nine Months Ended October 1, 2011

**NET SALES.** Net sales for the nine month period ended September 29, 2012 were \$746.6 million as compared to \$612.1 million in the nine month period ended October 1, 2011. Of the \$134.5 million increase in net sales, \$92.9 million, or 15.2%, was attributable to acquisition growth, resulting from the fiscal 2011 acquisitions of Beech, Lincat, Danfotech, Maurer, Auto-Bake, Drake and Armor Inox and the fiscal 2012 acquisitions of Baker and Stewart. Excluding acquisitions, net sales increased \$41.6 million, or 6.8%, from the prior year, reflecting a net sales increase of 5.5% at the Commercial Foodservice Equipment Group and an increase of 14.2% at the Food Processing Equipment Group.

Net sales of the Commercial Foodservice Equipment Group increased by \$52.3 million, or 10.0%, to \$573.4 million in the nine month period ended September 29, 2012 as compared to \$521.1 million in the prior period. Net sales resulting from the acquisitions of Beech and Lincat, which were acquired on April 12, 2011 and May 27, 2011, respectively, accounted for an increase of \$23.7 million during the nine month period ended September 29, 2012. Excluding the impact of these acquisitions, net sales of Commercial Foodservice Equipment increased by \$28.6 million, or 5.5%, as compared to the prior period. International sales increased \$20.4 million, or 14.7%, to \$158.8 million, as compared to \$138.4 million in the prior period. This includes the increase of \$23.7 million from the recent acquisitions, as these companies primarily have international sales. The increase in international sales reflects increased sales in Asia and Latin America as the company continues to realize growth in emerging markets due to expansion of restaurant chains, partially offset by lower sales in Europe due to economic conditions. Domestically, the company realized a sales increase of \$31.9 million, or 8.3%, to \$414.6 million, as compared to \$382.7 million in the prior period. This increase in domestic sales includes increased sales with major restaurant chains on new product initiatives and reflects improvements in general market conditions.

Net sales of the Food Processing Equipment Group increased by \$82.1 million, or 90.2%, to \$173.1 million in the nine month period ended September 29, 2012 as compared to \$91.0 million in the prior period. Net sales resulting from the acquisitions of Danfotech, Maurer, Auto-Bake, Drake, Armor Inox, Baker and Stewart, which were acquired on July 5, 2011, July 22, 2011, August 1, 2011, December 2, 2011, December 21, 2011, March 14, 2012 and September 5, 2012, respectively, accounted for an increase of \$69.2 million during the nine month period ended September 29, 2012. Excluding the impact of these acquisitions, net sales of Food Processing Equipment increased by \$12.9 million, or 14.2%, as compared to the prior period. International sales increased by \$48.7 million, or 176.4%, to \$76.3 million, as compared to \$27.6 million in the prior period. This includes an increase of \$38.8 million from the recent acquisitions. Domestically, the company realized a sales increase of \$33.4 million, or 52.7%, to \$96.8 million, as compared to \$63.4 million in the prior year quarter. This includes an increase of \$30.4 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.



**GROSS PROFIT.** Gross profit increased to \$289.7 million in the nine month period ended September 29, 2012 from \$244.5 million in the prior year period, reflecting the impact of higher sales volumes. The gross margin rate decreased from 39.9% in the nine month period ended October 1, 2011 to 38.8% in the current year period. The net decrease in the gross margin rate reflects the impact of lower margins at certain of the newly acquired companies and the effect of a higher sales mix of sales from the Food Processing Equipment Group at a lower gross margin rate.

Gross profit at the Commercial Foodservice Equipment Group increased by \$19.2 million, or 9.0%, to \$232.6 million in the nine month period ended September 29, 2012 as compared to \$213.4 million in the prior year period. The gross margin rate declined to 40.6% as compared to 41.0% in the prior year period. Gross profit from the acquisitions of Beech and Lincat, which were acquired during fiscal 2011, accounted for approximately \$9.1 million of the increase in gross profit during the period. Excluding the recent acquisitions, the gross profit increased by approximately \$10.1 million on higher sales volumes.

Gross profit at the Food Processing Equipment Group increased by \$27.5 million, or 85.9%, to \$59.5 million in the nine month period ended September 29, 2012 as compared to \$32.0 million in prior year period. The gross margin rate declined to 34.4% as compared to 35.2% in the prior year period due to lower margins at recently acquired companies. Gross profit from the acquisitions of Danfotech, Maurer, Auto-Bake, Drake, Armor Inox, Baker and Stewart, accounted for approximately \$22.3 million of the increase. Excluding the recent acquisitions, the gross profit increased by approximately \$5.2 million on higher sales volumes.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES.** Combined selling, general and administrative expenses increased from \$140.7 million in the nine month period ended October 1, 2011 to \$160.3 million in the nine month period ended September 29, 2012. As a percentage of net sales, operating expenses were 22.9% in the nine month period ended October 1, 2011 as compared to 21.5% in the nine month period ended September 29, 2012. Selling expenses increased from \$66.7 million in the nine month period ended October 1, 2011 to \$79.4 million in the nine month period ended September 29, 2012. Selling expenses reflect increased costs of \$11.6 million associated with the Beech, Lincat, Danfotech, Maurer, Auto-Bake, Drake, Armor Inox, Baker and Stewart acquisitions. Additionally, expenses increased \$1.7 million related to higher commissions on higher sales volumes offset by a decrease of \$0.7 million in convention and trade show costs. General and administrative expenses increased from \$74.0 million in the nine month period ended October 1, 2011 to \$80.9 million in the nine month period ended September 29, 2012. General and administrative expenses reflect \$12.4 million of increased costs associated with the Beech, Lincat, Danfotech, Maurer, Auto-Bake, Drake, Armor Inox, Baker and Stewart acquisitions, including \$5.3 million of non-cash intangible amortization expense. The increase in general and administrative costs related to acquisitions is offset by decreases of \$2.7 million in non-cash share-based and incentive compensation, \$0.6 million in professional fees, \$1.6 million in professional services associated with acquisition related activities and \$0.5 million in reduction to acquisition related future earnout payments.

**NON-OPERATING EXPENSES.** Interest and deferred financing amortization costs were \$7.0 million in the nine month period ended September 29, 2012 as compared to \$6.5 million in the prior period. Other expense was \$3.7 million in the nine month period ended September 29, 2012 as compared to \$1.0 million in the prior year period and consists primarily of foreign exchange gains and losses.

**INCOME TAXES.** A tax provision of \$35.8 million, at an effective rate of 30.2%, was recorded during the nine month period ended September 29, 2012, as compared to a \$35.4 million provision at a 36.7% effective rate in the prior year period. In comparison to the prior year period, the tax provision reflects favorable adjustments to tax reserves related to reduced state exposures, a lower effective rate on increased income in lower tax rate foreign jurisdictions and increased deductions related to U.S. manufacturing activities.



#### Financial Condition and Liquidity

During the nine months ended September 29, 2012, cash and cash equivalents decreased by \$5.1 million to \$35.1 million at September 29, 2012 from \$40.2 million at December 31, 2011. Net borrowings decreased from \$317.3 million at December 31, 2011 to \$269.3 million at September 29, 2012.

**OPERATING ACTIVITIES.** Net cash provided by operating activities was \$94.0 million for the nine months ended September 29, 2012 compared to \$65.7 million for the nine months ended October 1, 2011 due primarily to increased earnings.

During the nine months ended September 29, 2012, working capital levels changed due to increased working capital needs. These changes in working capital levels included a \$14.3 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 foreign sourcing initiatives. Accounts receivable decreased \$12.6 million due to lower receivable balances at the Food Processing Equipment Group resulting from the timing of projects which are often paid in advance. Changes in working capital levels also included an \$9.2 million increase in prepaid expenses and other assets primarily related to deferred financing costs in conjunction with the new credit facility, an \$8.2 million increase in accounts payable due to the timing of vendor payments and \$16.7 million decrease in accrued expenses and other non-current liabilities primarily related to the timing of tax payments.

**INVESTING ACTIVITIES.** During the nine months ended September 29, 2012, net cash used in investing activities included \$38.6 million related to the 2012 acquisitions of Baker and Stewart and prior year acquisitions of CookTek, Danfotech and Drake along with \$6.0 million of additions and upgrades of production equipment and manufacturing facilities.

**FINANCING ACTIVITIES.** Net cash flows used in financing activities were \$54.9 million during the nine months ended September 29, 2012. The company's borrowing activities included the repayment of \$309.4 million under the company's previous credit facility which was repaid and replaced with its new amended facility, \$264.5 million of net proceeds under its newly amended \$1.0 billion revolving credit facility and \$3.1 million of net repayments of foreign borrowings.

The company used \$16.0 million to repurchase 161,653 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 29, 2012.

At September 29, 2012, 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

In May 2011, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2011-04, "Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs." This update provides clarification on existing fair value measurement requirements, amends existing guidance primarily related to fair value measurements for financial instruments, and requires enhanced disclosures on fair value measurements. The additional disclosures are specific to Level 3 fair value measurements, transfers between Level 1 and Level 2 of the fair value hierarchy, financial instruments not measured at fair value and use of an asset measured or disclosed at fair value differing from its highest and best use. The company adopted the provisions of ASU No. 2011-04 on January 1, 2012. There was no impact to the company's financial position, results of operations or cash flows.

In June 2011 and December 2011, the FASB issued ASU No. 2011-05, "Presentation of Comprehensive Income" and ASU No. 2011-12, "Deferral of the Effective Date for Amendments to the Presentation of Reclassifications of Items Out of Accumulated Other Comprehensive Income in Accounting Standards Update No. 2011-05", respectively. ASU No. 2011-05 eliminated the option to present the components of other comprehensive income in the statement of changes in stockholders' equity. Instead, entities have the option to present the components of net income, the components of other comprehensive income and total comprehensive income in a single continuous statement or in two separate but consecutive statements. 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. 2011-05 on January 1, 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. For interim reporting purposes, the company has elected to present comprehensive income in a single continuous statement now referred to as the Condensed Consolidated Statements of Comprehensive Income.

In September 2011, the FASB issued ASU No. 2011-08, "Intangibles – Goodwill and Other (Topic 350)." This ASU will allow an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit. The ASU also amends previous guidance by expanding upon the examples of events and circumstances that an entity should consider between annual impairment tests in determining whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. Also, the ASU provides additional examples of events and circumstances that an entity having a reporting unit with a zero or negative carrying amount should consider in determining whether to measure an impairment loss, if any, under the second step of the goodwill impairment test. The company adopted the provisions of ASU 2011-08 on January 1, 2012. There was no impact to the company's financial position, results of operation or cash flows. The company will determine whether to apply the qualitative evaluation allowed under this ASU in connection with the company's annual goodwill impairment test.

On July 27, 2012, the FASB issued ASU 2012-02, "Intangibles - Goodwill and Other (Topic 350)". Similar to ASU 2011-08, this ASU amends the guidance in ASC 350-30. While ASU 2011-08 allows an entity the option to make a qualitative evaluation about the likelihood of goodwill impairment to determine whether it should calculate the fair value of a reporting unit, 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 company is currently evaluating its adoption approach to this guidance.

#### 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 77% for the nine month period ended September 29, 2012.



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 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.

**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. The company determined to change the date of its annual impairment test from the last day of its fiscal fourth quarter to the first day. This will allow the company more time to prepare the necessary tests prior to filing its annual report.

**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 29, 2012 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	\$1,845	\$3,409	\$8,316	\$5,148	\$18,718
1-3 years	4,000	233	17,566	7,513	29,312
3-5 years	—	256	16,839	2,524	19,619
After 5 years	—	265,416	5	1,208	266,629
	\$5,845	\$269,314	\$42,726	\$16,393	\$334,278

The company has obligations to make \$5.8 million of purchase price payments to the sellers of CookTek, Danfotech and Stewart that were deferred in conjunction with the acquisitions.

As of September 29, 2012, the company had \$264.5 million outstanding under its revolving credit line as part of its senior credit agreement. The average interest rate on this debt amounted to 1.82% at September 29, 2012. This facility matures in August of 2017. As of September 29, 2012, the company also has \$4.8 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 29, 2012 rates. Also reflected in the table above is \$3.6 million of payments to be made related to the company's interest rate swap agreements in 2012.

The company's projected benefit obligation under its defined benefit plans exceeded the plans' assets by \$22.6 million at the end of 2011. The unfunded benefit obligations were comprised of a \$1.6 million underfunding of the company's union plan, \$7.4 million underfunding of the company's Smithville plan, which was acquired as part of the Star acquisition, \$2.2 million underfunding of the company's Wrexham plan, which was acquired as part of the Lincat acquisition, and \$11.4 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 \$0.3 million and \$0.1 million, respectively, in 2012. The company expects to contribute \$0.5 million to the Wrexham plan in 2012.

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.

## 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	Fixed Rate Debt	Variable Rate Debt
	(in thousands)	
September 29, 2013	\$—	\$3,409
September 29, 2014	—	115
September 29, 2015	—	118
September 29, 2016	—	125
September 29, 2017 and thereafter	—	265,547
	\$—	\$269,314

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 29, 2012, the company had \$264.5 million of borrowings outstanding under this facility. The company also has \$6.6 million in outstanding letters of credit as of September 29, 2012, which reduces the borrowing availability under the revolving credit line. Remaining borrowing availability under this facility was \$728.9 million at September 29, 2012.

At September 29, 2012, borrowings under the senior secured credit facility are assessed at an interest rate 1.50% above LIBOR for long-term borrowings or at the higher of the Prime rate and the Federal Funds Rate. At September 29, 2012 the average interest rate on the senior debt amounted to 1.82%. 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 0.25% as of September 29, 2012.

In August 2006, the company completed its acquisition of Houno A/S in Denmark. This acquisition was funded in part with locally established debt facilities with borrowings in Danish Krone. On September 29, 2012 these facilities amounted to \$3.0 million in U.S. dollars, including \$1.5 million outstanding under a revolving credit facility and \$1.5 million of a term loan. The interest rate on the revolving credit facility is assessed at 1.25% above Euro LIBOR, which amounted to 2.80% on September 29, 2012. The term loan matures in 2013 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. On September 29, 2012 these facilities amounted to \$1.6 million in U.S. dollars. The interest rate on the credit facilities is variable based on the three-month Euro LIBOR. At September 29, 2012, the average interest rate on these facilities was approximately 5.20%. The facilities mature in April 2015.

In December 2011, the company completed its acquisition of Armor Inox in France. This acquisition was funded in part with locally established debt facilities with borrowings denominated in Euro. On September 29, 2012, these facilities amounted to \$0.2 million in U.S. dollars. The interest rate on the credit facilities is variable based on the three-month Euro LIBOR. The facilities mature in April 2015. At September 29, 2012, the average interest rate on these facilities was approximately 1.00%.

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, product development and integration 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 29, 2012 the company had the following interest rate swaps in effect:

Notional Amount	Fixed Interest Rate	Effective Date	Maturity Date
\$20,000,000	1.800%	11/23/09	11/23/12
20,000,000	1.560%	03/11/10	12/11/12
15,000,000	0.950%	08/06/10	12/06/12
25,000,000	1.610%	02/23/11	02/24/14
25,000,000	2.520%	02/23/11	02/23/16
25,000,000	0.975%	07/18/11	07/18/14
15,000,000	1.185%	09/12/11	09/12/16
15,000,000	0.620%	09/12/11	09/11/14

The terms of the senior secured credit facility limit the paying of dividends, capital expenditures and leases, and require, among other things, a maximum ratio of indebtedness to earnings before interest, taxes, depreciation and amortization (“EBITDA”) of 3.5 and a minimum EBITDA to fixed charges ratio of 1.25. The credit agreement also provides that if a material adverse change in the company’s business operations or conditions occurs, the lender could declare an event of default. Under terms of the agreement a material adverse effect is defined as (a) a material adverse change in, or a material adverse effect upon, the operations, business properties, condition (financial and otherwise) or prospects of the company and its subsidiaries taken as a whole; (b) a material impairment of the ability of the company to perform under the loan agreements and to avoid any event of default; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against the company of any loan document. A material adverse effect is determined on a subjective basis by the company's creditors. The credit facility is secured by the capital stock of the company’s domestic subsidiaries, 65% of the capital stock of the company’s foreign subsidiaries and substantially all other assets of the company. At September 29, 2012, 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 29, 2012, the fair value of these instruments was a liability of \$3.3 million. The change in fair value of these swap agreements in the first nine months of 2012 was a loss of \$0.1 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 29, 2012. The fair value of the forward contracts was an asset of \$0.2 million at the end of the third quarter of 2012.

Sell		Purchase		Maturity
25,000,000	British Pounds	31,456,000	Euro Dollars	December 28, 2012
9,500,000	British Pounds	15,346,000	US Dollars	December 28, 2012
1,800,000	Canadian Dollars	1,829,000	US Dollars	December 28, 2012
28,000,000	Euro Dollars	36,160,000	US Dollars	December 28, 2012
45,000,000	Mexican Pesos	3,462,000	US Dollars	December 28, 2012
500,000	Australian Dollars	516,000	US Dollars	December 28, 2012
11,000,000	Danish Kroner	1,903,000	US Dollars	December 28, 2012

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 29, 2012, 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 29, 2012, 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 29, 2012, 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
July 1 to July 28, 2012	—	\$—	—	111,140
July 29 to August 25, 2012	12,976	116.64	12,976	98,164
August 26 to September 29, 2012	—	—	—	98,164
Quarter ended September 29, 2012	12,976	\$116.64	12,976	98,164

In July 1998, the company's Board of Directors adopted a stock repurchase program that authorized the purchase of common shares in open market purchases. As of September 29, 2012, 1,701,836 shares had been purchased under the 1998 stock repurchase program.

Item 6. Exhibits

Exhibits – The following exhibits are filed herewith:

- Exhibit 10.1 – Fifth Amended and Restated Credit Agreement dated as of August 7, 2012 among Middleby Marshall, Inc., The Middleby Corporation, the subsidiary borrowers named therein, the lenders named therein, and Bank of America, N.A., as administrative agent for the lenders, incorporated by reference to Exhibit 10.1 to the company's Form 8-K filed on August 9, 2012.
- Exhibit 18.1 – Preferability letter by Ernst & Young, LLP, regarding a change in accounting principle.
- 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 29, 2012, filed on November 8, 2012, 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 8, 2012

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