FORM 10-Q

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

(Mark One)

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

FOR THE PERIOD ENDED OCTOBER 3, 1998

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.)

2850 W. GOLF ROAD, SUITE 405, ROLLING MEADOWS, ILLINOIS	60008
(Address of Principal Executive Offices)	(Zip Code)

Registrant's Telephone No., including Area Code (847) 758-3880

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 twelve (12) months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. YES X NO

As of November 10, 1998, there were 10,447,221 shares of the Registrant's common stock outstanding.

THE MIDDLEBY CORPORATION AND SUBSIDIARIES

QUARTER ENDED OCTOBER 3, 1998

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PART I. FINANCIAL INFORMATION

THE MIDDLEBY CORPORATION AND SUBSIDIARIES
CONSOLIDATED BALANCE SHEETS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)

	(UNAUDITED) OCT. 3, 1998	JAN. 3, 1998
ASSETS		
Cash and cash equivalents	$ 3,035	$12,321
Accounts receivable, net	25,354	22,251
Inventories, net	26,616	24,072
Prepaid expenses and other	1,813	1,248
Current deferred taxes	2,521	3,000
Total current assets	59,340	62,892
Property, plant and equipment, net of accumulated depreciation of $14,989 and $13,534	22,043	21,790
Excess purchase price over net assets acquired, net of accumulated amortization of $5,021 and $4,673	13,632	12,882

Deferred taxes......................	3,835	3,779
Other assets........................	2,539	2,135
Total assets.............	$101,389	$103,478
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current maturities of long-term debt..	$ 4,606	$ 3,595
Accounts payable....................	9,450	11,600
Accrued expenses....................	9,643	9,255
Total current liabilities........	23,699	24,450
Long-term debt......................	24,463	24,318
Other non-current liabilities.........	2,027	2,109
Shareholders' equity:		
Preferred stock, $.01 par value; nonvoting; 2,000,000 shares authorized; none issued..........	-	-
Common stock, $.01 par value; 20,000,000 shares authorized; 10,496,000 and 10,895,000 issued and outstanding in 1998 and 1997, respectively...............	106	109
Paid-in capital....................	54,588	53,984
Treasury stock, at cost (486,000 shares in 1998)..................	(1,948)	-
Cumulative translation adjustment...	(1,650)	(1,173)
Accumulated earnings (deficit)......	104	(319)
Total shareholders' equity.......	51,200	52,601
Total liabilities and shareholders' equity....	$101,389	$103,478

See accompanying notes

THE MIDDLEBY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF EARNINGS
(IN THOUSANDS, EXCEPT PER SHARE AMOUNTS)
(UNAUDITED)

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	OCT. 3, 1998	SEPT. 27, 1997	OCT. 3, 1998	SEPT. 27, 1997
Net sales.......................................	$ 33,891	$ 35,850	$ 98,633	$110,630
Cost of sales...................................	24,471	24,848	69,103	76,340
Gross profit..............................	9,420	11,002	29,530	34,290
Selling and distribution expenses.................	5,016	5,450	15,534	16,166
General and administrative expenses...............	2,992	2,665	8,901	8,384
Non-recurring charges............................	1,525	-	1,525	-
(Loss)income from operations...............	(113)	2,887	3,570	9,740
Interest expense and deferred financing amortization..........................	665	1,030	2,161	3,368

Other expense(income), net	160	7	413	(13)
(Loss)earnings before income taxes	(938)	1,850	996	6,385
Provision for income taxes	(50)	619	573	2,181
(Loss)earnings from continuing operations	(888)	1,231	423	4,204
Loss from discontinued operations, net of tax	-	-	-	(564)
Net (loss)earnings	$ (888)	$ 1,231	$ 423	$3,640
Basic (loss)earnings per share:				
Continuing operations	$ (0.08)	$ 0.14	$ 0.04	$ 0.48
Discontinued operations	0.00	0.00	0.00	(0.06)
Net (loss)earnings per share	$ (0.08)	$ 0.14	$ 0.04	$ 0.42
Weighted average number of shares	10,824	8,792	11,053	8,742
Diluted earnings(loss) per share:				
Continuing operations	$ (0.08)	$ 0.14	$ 0.04	$ 0.48
Discontinued operations	0.00	0.00	0.00	(0.06)
Net (loss)earnings per share	$ (0.08)	$ 0.14	$ 0.04	$ 0.42
Weighted average number of shares	10,864	8,800	11,211	8,769

See accompanying notes

THE MIDDLEBY CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS
(IN THOUSANDS)
(UNAUDITED)

	NINE MONTHS ENDED	
	OCT. 3, 1998	SEPT 27, 1997
Cash flows from operating activities-		
Net earnings	$ 423	$ 3,640
Adjustments to reconcile net earnings to cash provided by continuing operating activities-		
Depreciation and amortization	1,997	2,150
Utilization of NOL's	513	1,991
Non-cash portion of non-recurring charges	1,405	-
Changes in assets and liabilities-		
Accounts receivable	(3,103)	(4,188)
Inventories	(2,543)	(4,855)
Prepaid expenses and other assets	(1,150)	(1,829)
Accounts payable and other liabilities	(2,364)	1,787
Net cash used in continuing operating activities	(4,822)	(1,304)
Net cash used in discontinued operations	-	(2,399)
Net cash used in operating activities	(4,822)	(3,703)

Cash flows from investing activities-		
Purchase of subsidiary minority interest	(1,134)	-
Proceeds from sale of discontinued operations	-	6,281
Additions to property and equipment	(2,425)	(2,458)
Net cash (used in) provided by investing activities	(3,559)	3,823
Cash flows from financing activities-		
Treasury stock	(1,948)	-
Increase in revolving credit lines, net	1,361	3,360
Reduction in term loans	-	(3,195)
Reduction in capital expenditure loan	-	(75)
Reduction in intellectual property lease	(204)	-
Other financing activities, net	(114)	178
Net cash (used in) provided by financing activities	(905)	268
Changes in cash and cash equivalents-		
Net decrease in cash and cash equivalents	(9,286)	388
Cash and cash equivalents at beginning of year	12,321	1,410
Cash and cash equivalents at end of quarter	$ 3,035	$ 1,798
Interest paid	$ 2,061	$ 2,777
Income taxes paid	$ 623	$ 245

See accompanying notes

THE MIDDLEBY CORPORATION AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

OCTOBER 3, 1998
(UNAUDITED)

1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. BASIS OF PRESENTATION

The financial statements have been prepared by The Middleby Corporation (the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. Certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles 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 1997 Annual Report. Other than as indicated herein, there have been no significant changes from the data presented in said Report.

In the opinion of management, the financial statements contain all adjustments necessary to present fairly the financial position of the Company as of October 3, 1998 and January 3, 1998, and the results of operations for the three and nine months ended October 3, 1998 and September 27, 1997 and cash flows for the nine months ended October 3, 1998 and September 27, 1997.

B. COMPREHENSIVE INCOME

During the first quarter of 1998, the Company adopted Statement of Financial Accounting Standards No. 130, "Reporting Comprehensive Income", which requires companies to report all changes in equity during a period, except those resulting from investment by and distribution to shareholders, in a financial statement for the period in which they are recognized.

Components of comprehensive income were as follows:

	NINE MONTHS ENDED	
	OCT. 3, 1998	SEPT 27, 1997
	(IN THOUSANDS)	
Net earnings	$ 423	$ 3,640
Cumulative translation adjustment	(477)	(382)
Comprehensive Income	$ (54)	$ 3,258

2) INCOME TAXES

The Company accounts for income taxes in accordance with Statement of Financial Accounting Standards No. 109, "Accounting for Income Taxes".

The Company has recorded an income tax provision of $573,000 for the fiscal nine months ended October 3, 1998. The Company has significant tax loss carry-forwards, and although a tax provision is recorded, the Company makes no payment of federal tax other than AMT amounts.

3) EARNINGS PER SHARE

During the fourth quarter of 1997, the Company adopted Statement of Financial Accounting Standards No. 128 ("SFAS 128"), "Earnings Per Share", which specifies modifications to the calculation of earnings per share from that historically used by the Company. Under SFAS 128, "basic earnings per share" is calculated based upon the weighted average number of common shares actually outstanding, and "diluted earnings per share" is calculated based upon the weighted average number of common shares outstanding, warrants and other potential common shares, if they are dilutive. The Company's common share equivalents consist of shares issuable on exercise of outstanding options computed using the treasury method and amounted to 40,000 and 8,000 for the three-month period and 158,000 and 27,000 for the nine-month period ended October 3, 1998 and September 27, 1997, respectively. All prior periods have been restated to present all earnings per share data on a consistent basis.

4) INVENTORIES

Inventories are valued using the first-in, first-out method.

Inventories consist of the following:

	OCT. 3, 1998	JAN. 3, 1998
	(In thousands)	

Raw materials and parts	$ 6,522	$ 6,073
Work-in-process	5,432	6,804
Finished goods	14,662	11,195
	$26,616	$24,072

5) ACCRUED EXPENSES

Accrued expenses consist of the following:

	OCT 3, 1998	JAN. 3, 1998
	(In thousands)	
Accrued payroll and related expenses	$2,969	$3,601
Accrued commissions	1,634	1,510
Accrued warranty	1,543	1,172
Other accrued expenses	3,497	2,972
	$9,643	$9,255

6) ACQUISITION OF SUBSIDIARY MINORITY INTEREST

During the first quarter of 1998, the Company acquired the remaining minority interest in Asbury Associates, Inc. and the Middleby Philippines Corporation, from the founder and president of Asbury Associates, Inc. The remaining interest was acquired for $500,000 in cash, 50,000 shares of common stock with a market value of $387,000 at the date of issuance, and forgiveness of certain minority interest liabilities owed by the minority shareholder. This transaction increased the Company's ownership interest in these subsidiaries to 100%. The excess purchase price over the value of assets acquired of $1.1 million was allocated to goodwill, and is to be amortized over a period of 15 years.

7) NON-RECURRING CHARGES

During the third quarter of 1998, the Company decided to discontinue the implementation and fully abandon an enterprise-wide resource planning system at its international distribution organization. This decision resulted from the failure of the system to meet certain performance specifications. The total charge resulting from this decision amounted to $1,255,000 and was recorded in accordance with SFAS 121 "Accounting for the Impairment of Long-Lived Assets and For Long-Lived Assets to be Disposed of." This charge reflects the complete write-off of costs associated with the system, including capitalized software, program development and implementation costs.

Additionally, during the third quarter of 1998, the Company recorded charges of $270,000 for restructuring actions related to its international distribution organization and initiatives to reduce operating costs. These actions included the disposal of assets resulting from the relocation from certain leased facilities and severance benefits associated with terminated employees. These actions have been substantially completed and will be fully concluded by year-end.

8. CAPITAL STRUCTURE AND FINANCING ARRANGEMENTS

In March 1998, the Company entered into the $20 million unsecured multi-currency revolving credit line with a major international bank. This multi-currency revolving line of credit expires on February 28, 2001, or earlier at the Company's option. Concurrently with the initiation of the unsecured revolving line of credit, the $15 million senior secured note became unsecured. The note's maturity and interest rate remain unchanged.

In July 1998, the Company's Board of Directors adopted a stock repurchase program and authorized the purchase of up to 300,000 common shares from time to time in open market purchases. The Board subsequently authorized the repurchase of 500,000 shares in August and 1,000,000 shares in November. As of October 3, 1998, 486,000 shares had been purchased under the program for $1,948,000.

As of October 3, 1998, the Company was not in compliance with certain covenants under its revolving credit line and senior note. Failure to comply with these covenants resulted from the treasury stock purchase and non-recurring charges recorded during the quarter. Management discussed these matters with its lenders. The Company's lenders have indicated they will provide waivers for the related covenants.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS (UNAUDITED).

INFORMATIONAL NOTE

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 statements are highly dependent upon a variety of important factors which could cause such results or events to differ materially from such statements. Such factors include, but are not limited to, changing market conditions; the availability and cost of raw materials; the impact of competitive products and pricing; the timely development and market acceptance of the Company's products; the successful and timely implementation of the Company's Year 2000 compliance program; foreign exchange and political risks affecting international sales, including the current economic crisis in certain Asian countries; and other risks detailed herein and from time-to-time in the Company's Securities and Exchange Commission filings, including those discussed under the heading "Risk Factors" in the Company's Registration Statement on Form S-2 (No. 333-35397) filed with the Securities and Exchange Commission.

NET SALES SUMMARY
(DOLLARS IN THOUSANDS)

	THREE MONTHS ENDED				NINE MONTHS ENDED			
	OCTOBER 3, 1998		SEPTEMBER 27, 1997		OCTOBER 3, 1998		SEPTEMBER 27, 1997	
	Sales	Percent	Sales	Percent	Sales	Percent	Sales	Percent
BUSINESS DIVISIONS								
Conveyor oven equipment.............	$11,462	33.8%	$11,473	32.0%	$33,604	34.1%	$40,911	37.0%
Counterline cooking equipment and specialty products.....	4,495	13.3%	4,649	13.0%	12,889	13.0%	13,460	12.2%
Core cooking equipment.............	10,517	31.0%	9,230	25.7%	30,166	30.6%	25,236	22.8%
TOTAL COOKING AND WARMING EQUIPMENT DIVISIONS..........	26,474	78.1%	25,352	70.7%	76,659	77.7%	79,607	72.0%
International specialty equipment.............	1,700	5.0%	2,154	6.0%	4,312	4.4%	5,893	5.3%
International distribution (1).......	9,409	27.8%	11,456	32.0%	28,273	28.7%	34,477	31.2%
TOTAL INTERNATIONAL DIVISIONS..........	11,109	32.8%	13,610	38.0%	32,585	33.1%	40,370	36.5%

Intercompany sales (2)...	(3,792)	(11.2%)	(3,728)	(10.4%)	(11,443)	(11.6%)	(11,578)	(10.5%)
Other (3)................	100	0.3%	616	1.7%	832	0.8%	2,231	2.0%
TOTAL................	$33,891	100.0%	$35,850	100.0%	$98,633	100.0%	$110,630	100.0%

(1) Consists of sales of products manufactured by Middleby and products manufactured by third parties.
(2) Consists of sales to the Company's international distribution division from the Company's other business divisions.
(3) Consists primarily of sales from non-core product lines that have been discontinued.

RESULTS OF OPERATIONS

The following table sets forth certain consolidated statements of earnings items as a percentage of net sales for the periods presented.

	THREE MONTHS ENDED		NINE MONTHS ENDED	
	OCT. 3, 1998	SEPT. 27, 1997	OCT. 3, 1998	SEPT. 27, 1997
Net Sales	100.0%	100.0%	100.0%	100.0%
Cost of Sales	72.2%	69.3%	70.1%	69.0%
Gross Profit.	27.8%	30.7%	29.9%	31.0%
Selling, general and administrative expenses.......	28.1%	22.6%	26.3%	22.2%
(Loss)income from operations....................	(0.3%)	8.1%	3.6%	8.8%
Interest expense and deferred financing amortization, net...............................	2.0%	2.9%	2.2%	3.0%
Other (income) expense, net.......................	0.5%	0.0%	0.4%	(0.0%)
(Loss)earnings before income taxes..............	(2.8%)	5.2%	1.0%	5.8%
Provision (benefit) for income taxes..............	(0.1%)	1.7%	0.6%	2.0%
(Loss)net earnings from continuing operations....	(2.7%)	3.5%	0.4%	3.8%

THREE MONTHS ENDED OCTOBER 3, 1998 COMPARED TO THREE MONTHS ENDED SEPTEMBER 27, 1997

NET SALES. Net sales in the three-month period ended October 3, 1998 decreased $2.0 million or 5% to $33.9 million as compared to $35.9 million in the three-month period ended September 27, 1997, primarily due to lower sales into many international regions as a result of unstable economic conditions and a continued low level of orders from certain major restaurant chains.

Sales of the Company's cooking and warming equipment divisions increased 4% for the three-month period ended October 3, 1998 compared to the prior year three-month period. Sales of the core cooking equipment division increased 14% from continued market penetration, primarily in the U.S., and the introduction of new products. Sales of the conveyor oven equipment division and the counterline cooking equipment and specialty products division decreased slightly due mainly to lower sales to international distribution.

Sales of the international divisions represented 33% of total sales in the three-month period ended October 3, 1998 compared to 38% in the prior year period, and decreased 18% as compared to the prior year. Sales of the Company's international specialty equipment division decreased 21%, primarily due to deferred new store openings by a major chain customer as a result of the ongoing currency and economic crisis in Asia. Sales of the Company's international distribution division decreased 18% due to lower sales in certain Asian and Middle Eastern markets. Sales to certain other international markets, such as Latin America, were higher as compared to the prior year period.

GROSS PROFIT. Gross profit decreased $1.6 million, or 14%, in the three-month period to $9.4 million as compared to $11.0 million in the prior year period. As a percentage of net sales, gross profit margin decreased 2.9% to 27.8% from 30.7%. The decrease in gross profit and gross profit margin percentage was attributable to lower sales volume, an unfavorable sales mix, production inefficiencies due to erratic demand, higher product warranty costs and the impact of fluctuating currencies on pricing in international markets.

OPERATING EXPENSES. Operating expenses increased $1.4 million, or 17%, in the three-month period to $9.5 million as compared to $8.1 million in the prior year's third quarter. The net increase is attributable to $1.5 million of non-recurring charges recorded during the quarter. These charges included $.3 million related to cost reduction initiatives, primarily in the international distribution business, and $1.2 million related to the write-down of system related assets associated with the abandonment of an enterprise-wide resource planning system which failed to meet performance specifications. The Company is currently considering its legal rights with respect to the planned abandonment. As a percentage of sales, selling, general and administrative expenses increased to 28.1% from 22.6%. The non-recurring charges accounted for 4.5% of this increase.

INCOME FROM OPERATIONS. Income from operations decreased $3.0 million to a loss of $0.1 million for the three-month period ended October 3, 1998 as compared to net income of $2.9 million in the prior year's third quarter. Lower sales volume, lower gross profit margin and the non-recurring charges accounted for the decrease in the income from operations.

INTEREST EXPENSE AND DEFERRED FINANCING AMORTIZATION. Interest expense and deferred financing amortization for the three months ended October 3, 1998 was $0.7 million as compared to $1.0 million in the prior year's third quarter. The decrease was due to lower outstanding debt balances resulting from the public offering in the fourth quarter of fiscal 1997.

INCOME TAXES. The Company recorded a net tax benefit of $50,000 for the three-month period ended October 3, 1998 as compared to a net tax provision of $0.6 million in the prior year's third quarter. The tax benefit was due to the reported loss before taxes for U.S. operations. Tax benefits were not recognized on certain foreign losses.

NET EARNINGS. As a result of the above factors, for the three-month period ended October 3, 1998, the Company recorded a net loss of $0.9 million as compared to net earnings of $1.2 million in the prior year's third quarter. The non-recurring charges accounted for $0.9 million of the loss on an after-tax basis.

NINE MONTHS ENDED OCTOBER 3, 1998 COMPARED TO NINE MONTHS ENDED SEPTEMBER 27, 1997

NET SALES. Net sales in the nine-month period ended October 3, 1998 decreased $12.0 million, or 11%, to $98.6 million as compared to $110.6 million in the nine-month period ended September 27, 1997, reflecting lower unit volume in the Company's cooking and warming equipment divisions and international divisions. The net sales decline is principally due to unstable economic conditions resulting from currency crises in Asia and other regions, slowed purchases by two major customers and a non-recurring equipment upgrade program by a major chain during the fiscal second quarter of 1997.

Sales of the Company's cooking and warming equipment divisions decreased 4% for the nine-month period ended October 3,1998. Sales of the core cooking equipment division increased 20% as a result of increased market penetration in the U.S.

and the introduction of new products. These gains were offset by an 18% decrease in sales of the conveyor oven equipment division as one major chain customer slowed purchases during the first two months of the year to reduce inventory in its system and another major chain embarked on a store restructuring program in early 1998. Additionally, the 1997 results included conveyor oven service and equipment upgrade billings, mostly in the fiscal second quarter, for a major chain customer that was not repeated in 1998. Sales of the counterline cooking equipment and specialty products division decreased 2% due mainly to lower sales to international distribution channels.

Sales of the international divisions represented 33% of total sales in the nine-month period and decreased 22% as compared to the prior year period. Sales of the Company's international specialty equipment division decreased 27% due mainly to lower new store openings in Asia by a major chain customer. Sales of the Company's international distribution division decreased 21% primarily due to lower sales in Asia and other regions impacted by the currency crisis. Sales to certain other international markets, such as Latin America and Western Europe, were higher as compared to the prior year.

GROSS PROFIT. Gross profit decreased $4.8 million, or 14%, in the nine-month period to $29.5 million as compared to $34.3 million in the prior year period. As a percentage of net sales, gross profit margin decreased 1.1% to 29.9% from 31.0%. Gross margin percentage has been unfavorably impacted by lower volume, an unfavorable sales mix, production inefficiencies resulting from erratic and difficult-to-forecast demand, higher product warranty costs, and the effect of currency fluctuations on international pricing.

OPERATING EXPENSES. Operating expenses increased $1.5 million, or 6%, in the nine-month period to $26.0 million as compared to $24.5 million for the prior year period. Lower variable selling expenses were offset by increases due to expansion of the Company's international sales and service capabilities, including the establishment of sales and distribution offices in Japan, Korea and Mexico during the second quarter of 1997. Further, the fiscal third quarter included non-recurring charges of $1.5 million.

As a percentage of sales, selling, general and administrative expenses increased to 26.3% from 22.2% primarily as a result of a higher expense base to support the expanded international infrastructure being spread over lower sales. The non-recurring charges accounted for 1.5% of this increase. The Company has taken several actions to reduce expenses in international markets affected by the currency crisis.

INCOME FROM OPERATIONS. Income from operations decreased $6.1 million or 63% to $3.6 million for the nine-month period ended October 3, 1998 from $9.7 million in the prior year period. The lower sales volume and increased expense base resulted in the lower income from operations.

INTEREST EXPENSE AND DEFERRED FINANCING AMORTIZATION. Interest expense and deferred financing amortization for the nine months ended October 3, 1998 was $2.2 million as compared to $3.4 million in the prior year period. The decrease was due to a lower average outstanding debt balance as a result of the Company's public stock offering completed during the fourth quarter of 1997.

INCOME TAXES. The Company recorded a net tax provision of $0.6 million for the nine-month period ended October 3, 1998 as compared to a net tax provision of $2.2 million in the prior year period. The increase in the effective tax rate is a result of foreign operating losses reported in the current year for which no tax benefit has been recognized.

NET EARNINGS. As a result of the above factors, for the nine-month period ended October 3, 1998, the Company recorded net earnings from continuing operations of $0.4 million as compared to $4.2 million in the prior year period.

FINANCIAL CONDITION AND LIQUIDITY

Total cash and cash equivalents decreased by $9.3 million to $3.0 million at October 3, 1998 from $12.3 million at January 3, 1998. In addition, net

borrowings increased by $1.2 million during the first nine months of the current year. This overall use of liquidity was primarily to fund the working capital needs of $4.8 million, investing activities of $3.6 million, and a $1.9 million treasury stock purchase, further discussed below.

Operating Activities

For the nine months ended October 3, 1998, net cash provided by operating activities before changes in assets and liabilities was $4.2 million as compared to $7.8 million for the nine months ended September 27, 1997. This decline is due to the lower net earnings. Net cash used by continuing operating activities after changes in assets and liabilities was $4.8 million as compared to net cash used of $ 1.3 million in the prior year nine-month period. Accounts receivables have increased $3.1 million due to longer average collection periods in international markets, as well as the timing of shipments and collections as compared to the end of the prior

fiscal year. Inventories increased $2.5 million, primarily at the international distribution division, largely due to difficulties in forecasting demand in Asian markets. Accounts payable and other liabilities have decreased $2.2 million due to timing of payments as compared to the prior fiscal year-end.

Investing Activities

During the first quarter of 1998, the Company acquired the remaining interest in Asbury Associates, Inc. and the Middleby Philippines Corporation, for $1.1 million. This transaction increased the Company's ownership interest in these subsidiaries to 100%. During the first nine months of 1998 the Company had capital expenditures of $2.4 million primarily to enhance manufacturing capabilities and to install new computer systems and equipment.

Financing Activities

In July 1998, the Company's Board of Directors adopted a stock repurchase program and authorized the purchase of up to 300,000 common shares from time to time in open market purchases. The Board subsequently authorized the repurchase of 500,000 shares in August and 1,000,000 shares in November. As of October 3, 1998, 486,000 shares had been purchased under the program for $1.9 million.

During the first nine months of 1998, outstanding debt increased by $1.2 million. The Company increased its net borrowings under its revolving credit facilities by $1.4 million and reduced the amount outstanding under its intellectual property lease by $0.2 million. To date, the Company has entered into $3.3 million of foreign currency-denominated loans at certain foreign subsidiaries, under its unsecured multi-currency revolving credit line.

The Company entered into the $20.0 million unsecured multi-currency revolving credit line with a major international bank in March 1998. This credit facility enhances the Company's ability to manage its financing activities related to its international operations. Concurrently with the initiation of the unsecured revolving line of credit, the $15.0 million senior secured note became unsecured. The note's maturity and interest rate remain unchanged. As of October 3, 1998, the Company was not in compliance with certain covenants under its revolving credit line and senior note. Failure to comply with these covenants resulted from the treasury stock purchase and non-recurring charges recorded during the quarter. Management has discussed these matters with its lenders. The Company's lenders have indicated they will provide waivers for the related covenants. Management believes that the Company will have sufficient financial resources available to meet its anticipated requirements for working capital, growth strategies, capital expenditures and debt amortization for the foreseeable future.

YEAR 2000 COMPLIANCE

The Company has assessed and continues to assess the impact of the Year 2000 issue on its reporting systems and operations. The Year 2000 issue exists because many computer systems and applications currently use two-digit date fields to designate a year. As the century date occurs, date sensitive systems may recognize the year 2000 as 1900 or not at all. This inability to recognize

or properly treat the year 2000 may cause our systems to process critical financial and operational information incorrectly.

The Company has undertaken a review of its information technology ("IT") systems. The Company is in the process of executing a strategy to implement new IT systems at its International Distribution Division to enhance its current transaction processing and information reporting capabilities. These systems are year 2000 compliant. In addition, the Company has completed, or is in process of completing, upgrades to existing IT systems at all other business units, to make these systems year 2000 compliant. These systems projects are currently on schedule for completion prior to July 30, 1999. If these systems projects are not successful, the Company will develop contingency plans. Nevertheless, failure to complete these systems projects in a timely manner could result in a significant disruption of the Company's ability to transact business with its major customers and suppliers.

The Company has also undertaken a review of its critical non-IT systems, such as production machinery and phone systems. The Company is in the process of contacting equipment vendors and service providers to assess the potential risk associated with these systems. Non-compliant systems will be replaced or modified. Based upon internal evaluations and assurances provided by equipment and service vendors, the Company does not believe significant modification to or replacement of existing non-IT systems will be required. However, the Company cannot verify the assurances it has been provided from third parties.

Additionally, a review of key suppliers and customers is in process to ensure that the flow of products and services will not be disrupted as a result of failure of the supplier or customer to become year 2000 compliant. While the Company is receiving assurances that no such interruption will occur, the Company cannot ensure that third parties will become compliant. Any significant or prolonged interruption in the supply of essential services or products would adversely effect the Company's operations and ability to conduct business. In the event that the Company identifies problems with a service provider or other vendor, it will attempt to obtain services and products from other available sources. Similarly, problems with a significant portion of the Company's customers in processing and paying invoices could materially impact the Company's cash flows or liquidity. The Company is unable to anticipate whether a significant portion of its customers will have difficulty in processing and paying invoices.

Expenses associated with the Year 2000 issue relate primarily to the modification of existing IT systems. The Company anticipates that remaining costs to fully address these matters will amount to approximately $0.5 million. The Company does not anticipate that future costs to address the Year 2000 issue will have a material effect on its financial condition.

Foregoing is a Year 2000 readiness disclosure entitled to protection as provided in the Year 2000 Information and Readiness Disclosure Act.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

The Company is exposed to market risk related to change in interest rates. At October 3, 1998, the Company had approximately $3.3 million of debt outstanding on a revolving credit facility with a floating interest rate. If this rate were to increase 10 percent, the increase in interest payments would not have a material impact on the Company's net income or cash flows. In addition, the Company has fixed rate-financing arrangements under its senior note and lease

obligations in the amount of $25.8 million. A 10 percent change in interest rates would not have a material impact on the fair market value of this debt.

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 three months ended October 3, 1998, except as follows:

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits - The following Exhibits are filed herewith:

Exhibit (27) - Financial Data Schedule (EDGAR only)

SIGNATURES

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 16, 1998

By: /s/ John J. Hastings

John J. Hastings, Executive Vice President, Chief Financial Officer and Secretary
(Principal Financial and Accounting Officer)

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