for taxes, the company establishes reserves for the amount that it expects to incur as a result of audits. The reserves may change in the future due to new developments related to the various tax matters.

Certain Risk Factors That May Affect Future Results

LEVEL OF INDEBTEDNESS. The company has and will continue to have a significant amount of debt. As of January 1, 2005, the company had $123.7 million of borrowings and $3.9 million in letters of credit outstanding. To the extent capital resources are required, there can be no assurance that such funds will be available on favorable terms, or at all. The unavailability of funds could have a material adverse effect on the company's financial condition, results of operations and the ability to expand operations.

The level of indebtedness could adversely affect the company in a number of ways, including the following:

- the company may be unable to obtain additional financing for working capital, capital expenditures, acquisitions and other general corporate purposes;
- a significant portion of the company's cash flow from operations must be dedicated to debt service, which reduces the amount of cash the company has available for other purposes;
- the company may be more vulnerable to a downturn in business or economic and industry conditions;
- the company may be disadvantaged as compared to its competitors, such as in the ability to adjust to changing market conditions, as a result of the significant amount of debt the company owes; and
- the company may be restricted in its ability to make strategic acquisitions and to pursue business opportunities.

RESTRICTIONS UNDER DEBT AGREEMENTS. The covenants in the company's existing credit agreement contain a number of significant limitations on its ability to, among other things:

- pay dividends;
- incur additional indebtedness;
- create liens on the company's assets;
- engage in new lines of business;
- make investments;
- make capital expenditures and enter into leases; and
- acquire or dispose of assets.

These restrictive covenants, among others, could negatively affect the company's ability to finance future capital needs, engage in other business activities or withstand a future downturn in business or the economy.

Under the company's credit agreement, the company is required to maintain certain specified financial ratios and meet financial tests, including certain ratios of leverage and fixed charge coverage. The company's ability to comply with these requirements may be affected by matters beyond its control, and as a result, the company cannot assure that it will be able to meet these ratios and tests. A breach of any of these covenants would prevent the company from being able to draw under its revolver and will result in a default under the credit agreement. In the event of a default under the credit agreement, the lenders could terminate their commitments and declare all amounts borrowed, together with accrued interest and other fees, to be due and payable. The company may be unable to pay these debts in these circumstances.

COMPETITION. The foodservice equipment industry is highly competitive. Competition is based on product features and design, brand recognition, reliability, durability, technology, energy efficiency, breadth of product offerings, delivery lead times, serviceability and after-sale service, price and customer relationships. There are a number of competitors in each product line that the company offers. Many competitors are substantially larger and enjoy substantially greater financial, marketing, technological and personnel resources. These factors may enable them to develop similar or superior products, to provide lower cost products and to carry out their business strategies more quickly and efficiently than the company can. In addition, some competitors focus on particular product lines or geographical regions or emphasize their local manufacturing presence or local market knowledge. Some competitors have different pricing structures and may be able to deliver their products at lower prices. Although the company believes that the performance and price characteristics of its products will provide competitive solutions for its customers' needs, there can be no assurance that the company's customers will continue to choose its products over products offered by its competitors.

Further, the market for the company's products is characterized by changing technology and evolving industry standards. The company's ability to compete in the past has depended in part on the company's ability to develop innovative new products and bring them to market more quickly than its competitors. The company's ability to compete successfully will depend, in large part, on its ability to enhance and improve existing products, to continue to bring innovative products to market in a timely fashion, to adapt products to the needs and standards of customers and potential customers. Moreover, competitors may develop technologies or products that render the company's products obsolete or less marketable. If the company's products, markets and services are not competitive, the company's business, financial condition and operating results will be materially harmed.