

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 26, 2020
or

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

Commission File No. 1-9973

THE MIDDLEBY CORPORATION

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of incorporation or organization)

36-3352497

(IRS Employer Identification Number)

1400 Toastmaster Drive, Elgin, Illinois

(Address of principal executive offices)

60120

(Zip Code)

Registrant's telephone number, 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 x No 0

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted 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 such files).

Yes x No 0

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of "accelerated filer," "large accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer	<input checked="" type="checkbox"/>	Accelerated filer	<input type="checkbox"/>	Non-accelerated filer	<input type="checkbox"/>
Smaller reporting company	<input type="checkbox"/>	Emerging growth company	<input type="checkbox"/>		

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. 0

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

Securities registered pursuant to Section 12(b) of the Act:

<u>Title of Each Class</u>	<u>Trading Symbol(s)</u>	<u>Name of Each Exchange on Which Registered</u>
Common Stock	MIDD	Nasdaq Global Market

As of October 30, 2020, there were 55,612,255 shares of the registrant's common stock outstanding.

THE MIDDLEBY CORPORATION

QUARTER ENDED SEPTEMBER 26, 2020

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PART I. FINANCIAL INFORMATION**Item 1. Condensed Consolidated Financial Statements**

THE MIDDLEBY CORPORATION
CONDENSED CONSOLIDATED BALANCE SHEETS
(In Thousands, Except Share Data)
(Unaudited)

ASSETS	Sep 26, 2020	Dec 28, 2019
Current assets:		
Cash and cash equivalents	\$ 220,310	\$ 94,500
Accounts receivable, net of reserve for doubtful accounts of \$20,237 and \$14,886	381,273	447,612
Inventories, net	557,512	585,699
Prepaid expenses and other	67,261	61,224
Prepaid taxes	14,826	20,161
Total current assets	1,241,182	1,209,196
Property, plant and equipment, net of accumulated depreciation of \$223,844 and \$197,629	343,860	352,145
Goodwill	1,855,361	1,849,747
Other intangibles, net of amortization of \$385,737 and \$333,507	1,420,600	1,443,381
Long-term deferred tax assets	35,115	36,932
Other assets	124,066	110,742
Total assets	<u>\$ 5,020,184</u>	<u>\$ 5,002,143</u>
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	\$ 23,152	\$ 2,894
Accounts payable	152,262	173,693
Accrued expenses	421,580	416,550
Total current liabilities	596,994	593,137
Long-term debt	1,808,973	1,870,246
Long-term deferred tax liability	137,276	133,500
Accrued pension benefits	252,420	289,086
Other non-current liabilities	193,199	169,360
Stockholders' equity:		
Preferred stock, \$0.01 par value; nonvoting; 2,000,000 shares authorized; none issued	—	—
Common stock, \$0.01 par value; 63,558,226 and 63,129,775 shares issued in 2020 and 2019, respectively	146	145
Paid-in capital	415,952	387,402
Treasury stock, at cost; 7,945,527 and 6,940,089 shares in 2020 and 2019	(528,506)	(451,262)
Retained earnings	2,516,919	2,361,462
Accumulated other comprehensive loss	(373,189)	(350,933)
Total stockholders' equity	2,031,322	1,946,814
Total liabilities and stockholders' equity	<u>\$ 5,020,184</u>	<u>\$ 5,002,143</u>

See accompanying notes

THE MIDDLEBY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(In Thousands, Except Per Share Data)
(Unaudited)

	Three Months Ended		Nine Months Ended	
	Sep 26, 2020	Sep 28, 2019	Sep 26, 2020	Sep 28, 2019
Net sales	\$ 634,525	\$ 724,014	\$ 1,783,961	\$ 2,171,820
Cost of sales	411,776	453,986	1,157,896	1,358,001
Gross profit	222,749	270,028	626,065	813,819
Selling, general and administrative expenses	128,814	144,460	384,580	445,000
Restructuring expenses	7,263	4,223	10,281	6,806
Income from operations	86,672	121,345	231,204	362,013
Interest expense and deferred financing amortization, net	18,418	20,846	55,881	63,334
Net periodic pension benefit (other than service costs)	(10,149)	(7,175)	(30,004)	(22,233)
Other (income) expense, net	(294)	1,444	3,414	(489)
Earnings before income taxes	78,697	106,230	201,913	321,401
Provision for income taxes	18,181	24,210	46,456	78,158
Net earnings	\$ 60,516	\$ 82,020	\$ 155,457	\$ 243,243
Net earnings per share:				
Basic	\$ 1.10	\$ 1.47	\$ 2.82	\$ 4.37
Diluted	\$ 1.10	\$ 1.47	\$ 2.82	\$ 4.37
Weighted average number of shares				
Basic	54,982	55,663	55,104	55,641
Dilutive common stock equivalents	118	—	48	—
Diluted	55,100	55,663	55,152	55,641
Comprehensive income	\$ 82,887	\$ 55,915	\$ 133,201	\$ 191,876

See accompanying notes

THE MIDDLEBY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(amounts in thousands)
(Unaudited)

	Common Stock	Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income/(loss)	Total Stockholders' Equity
Balance, June 27, 2020	\$ 145	\$ 406,640	\$ (528,111)	\$ 2,456,403	\$ (395,560)	\$ 1,939,517
Net earnings	—	—	—	60,516	—	60,516
Currency translation adjustments	—	—	—	—	25,851	25,851
Change in unrecognized pension benefit costs, net of tax of \$(1,283)	—	—	—	—	(6,133)	(6,133)
Unrealized gain on interest rate swap, net of tax of \$960	—	—	—	—	2,653	2,653
Stock compensation	—	5,300	—	—	—	5,300
Stock issuance	1	3,705	—	—	—	3,706
Purchase of treasury stock	—	—	(395)	—	—	(395)
Equity component of issuance of convertible notes	—	307	—	—	—	307
Balance, September 26, 2020	\$ 146	\$ 415,952	\$ (528,506)	\$ 2,516,919	\$ (373,189)	\$ 2,031,322
Balance, December 28, 2019	\$ 145	\$ 387,402	\$ (451,262)	\$ 2,361,462	\$ (350,933)	\$ 1,946,814
Net earnings	—	—	—	155,457	—	155,457
Currency translation adjustments	—	—	—	—	(3,213)	(3,213)
Change in unrecognized pension benefit costs, net of tax of \$1,308	—	—	—	—	6,184	6,184
Unrealized (loss) on interest rate swap, net of tax of \$(9,303)	—	—	—	—	(25,227)	(25,227)
Stock compensation	—	14,422	—	—	—	14,422
Stock issuance	1	13,821	—	—	—	13,822
Purchase of treasury stock	—	—	(77,244)	—	—	(77,244)
Equity component of issuance of convertible notes	—	307	—	—	—	307
Balance, September 26, 2020	\$ 146	\$ 415,952	\$ (528,506)	\$ 2,516,919	\$ (373,189)	\$ 2,031,322

See accompanying notes

THE MIDDLEBY CORPORATION
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
(amounts in thousands)
(Unaudited)

	Common Stock	Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income/(loss)	Total Stockholders' Equity
Balance, June 29, 2019	\$ 145	\$ 380,603	\$ (451,204)	\$ 2,170,445	\$ (301,738)	\$ 1,798,251
Net earnings	—	—	—	82,020	—	82,020
Currency translation adjustments	—	—	—	—	(25,428)	(25,428)
Change in unrecognized pension benefit costs, net of tax of \$1,026	—	—	—	—	4,975	4,975
Unrealized (loss) on interest rate swap, net of tax of \$(1,867)	—	—	—	—	(5,652)	(5,652)
Stock compensation	—	1,923	—	—	—	1,923
Purchase of treasury stock	—	—	(58)	—	—	(58)
Balance, September 28, 2019	\$ 145	\$ 382,526	\$ (451,262)	\$ 2,252,465	\$ (327,843)	\$ 1,856,031
Balance, December 29, 2018	\$ 145	\$ 377,419	\$ (445,118)	\$ 2,009,233	\$ (276,476)	\$ 1,665,203
Net earnings	—	—	—	243,243	—	243,243
Adoption of ASU 2017-12 (1)	—	—	—	(11)	11	—
Currency translation adjustments	—	—	—	—	(27,190)	(27,190)
Change in unrecognized pension benefit costs, net of tax of \$955	—	—	—	—	4,966	4,966
Unrealized (loss) on interest rate swap, net of tax of \$(9,890)	—	—	—	—	(29,154)	(29,154)
Stock compensation	—	3,257	—	—	—	3,257
Stock issuance	—	1,850	—	—	—	1,850
Purchase of treasury stock	—	—	(6,144)	—	—	(6,144)
Balance, September 28, 2019	\$ 145	\$ 382,526	\$ (451,262)	\$ 2,252,465	\$ (327,843)	\$ 1,856,031

(1) As of December 30, 2018, the company adopted ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities" using the modified retrospective method. The adoption of this guidance resulted in the recognition of less than \$0.1 million as an adjustment to the opening balance of retained earnings.

See accompanying notes

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

	Nine Months Ended	
	Sep 26, 2020	Sep 28, 2019
Cash flows from operating activities--		
Net earnings	\$ 155,457	\$ 243,243
Adjustments to reconcile net earnings to net cash provided by operating activities--		
Depreciation and amortization	81,594	77,272
Amortization of discount and issuance costs on convertible notes	2,130	—
Non-cash share-based compensation	14,422	3,257
Deferred income taxes	11,696	9,931
Net periodic pension benefit (other than service costs)	(30,004)	(22,233)
Changes in assets and liabilities, net of acquisitions		
Accounts receivable, net	69,176	(1,116)
Inventories, net	43,188	(65,864)
Prepaid expenses and other assets	16,576	1,903
Accounts payable	(28,171)	(17,659)
Accrued expenses and other liabilities	(19,882)	1,010
Net cash provided by operating activities	<u>316,182</u>	<u>229,744</u>
Cash flows from investing activities--		
Net additions to property, plant and equipment	(29,776)	(33,819)
Proceeds on sale of property, plant and equipment	9,381	—
Acquisitions, net of cash acquired	(33,144)	(238,974)
Net cash used in investing activities	<u>(53,539)</u>	<u>(272,793)</u>
Cash flows from financing activities--		
Proceeds under Credit Facility	2,547,305	444,451
Repayments under Credit Facility	(3,217,507)	(375,188)
Proceeds from issuance of convertible notes, net of issuance costs	729,933	—
Premiums paid for capped call	(104,650)	—
Net proceeds under international credit facilities	2,033	319
Net repayments under other debt arrangement	(34)	(175)
Payments of deferred purchase price	(3,700)	(1,648)
Repurchase of treasury stock	(77,244)	(6,144)
Debt issuance costs on Credit Facility	(10,974)	—
Net cash (used in) provided by financing activities	<u>(134,838)</u>	<u>61,615</u>
Effect of exchange rates on cash and cash equivalents	<u>(1,995)</u>	<u>(3,086)</u>
Changes in cash and cash equivalents--		
Net increase in cash and cash equivalents	125,810	15,480
Cash and cash equivalents at beginning of year	94,500	71,701
Cash and cash equivalents at end of period	<u>\$ 220,310</u>	<u>\$ 87,181</u>
Non-cash investing and financing activities:		
Stock issuance related to acquisition	\$ 3,706	\$ —

See accompanying notes

THE MIDDLEBY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 26, 2020
(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 ("SEC"). 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 2019 Form 10-K. The company's interim results are not necessarily indicative of future full year results for the fiscal year 2020.

In the opinion of management, the financial statements contain all adjustments, which are normal and recurring in nature, necessary to present fairly the financial position of the company as of September 26, 2020 and December 28, 2019, the results of operations for the three and nine months ended September 26, 2020 and September 28, 2019, cash flows for the nine months ended September 26, 2020 and September 28, 2019 and statement of stockholders' equity for the three and nine months ended September 26, 2020 and September 28, 2019.

Certain prior year amounts have been reclassified to be consistent with current year presentation, including classifying the non-operating components of pension benefit as an individual adjustment within the operating activities on the Consolidated Statements of Cash Flows. Previously the amounts were reported as changes in accrued expenses and other liabilities.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses. Significant estimates and assumptions are used for, but are not limited to, allowances for doubtful accounts, reserves for excess and obsolete inventories, long-lived and intangible assets, warranty reserves, insurance reserves, income tax reserves, non-cash share-based compensation 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 \$5.3 million and \$2.0 million for the three months period ended September 26, 2020 and September 28, 2019, respectively. Non-cash share-based compensation expense was \$14.4 million and \$3.3 million for the nine months period ended September 26, 2020 and September 28, 2019, respectively.

c) Income Taxes

A tax provision of \$18.2 million, at an effective rate of 23.1% was recorded during the three months period ended September 26, 2020, as compared to a \$24.2 million tax provision at an effective rate of 22.8% in the prior year period. A tax provision of \$46.5 million, at an effective rate of 23.0%, was recorded during the nine months period ended September 26, 2020, as compared to a \$78.2 million tax provision at a 24.3% effective rate in the prior year period. The effective tax rates in 2020 and 2019 are higher than the federal tax rate of 21% primarily due to state taxes. The effective tax rate for the nine months period ended September 26, 2020 is lower than the comparable prior year rate primarily due to a reduction in non-deductible costs.

d) Fair Value Measures

Accounting Standards Codification ("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 the company's 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
<u>As of September 26, 2020</u>				
Financial Liabilities:				
Interest rate swaps	\$ —	\$ 57,820	\$ —	\$ 57,820
Contingent consideration	\$ —	\$ —	\$ 10,542	\$ 10,542
Foreign exchange derivative contracts	—	171	—	171
<u>As of December 28, 2019</u>				
Financial Assets:				
Interest rate swaps	\$ —	\$ 1,830	\$ —	\$ 1,830
Financial Liabilities:				
Interest rate swaps	\$ —	\$ 25,120	\$ —	\$ 25,120
Contingent consideration	\$ —	\$ —	\$ 6,697	\$ 6,697
Foreign exchange derivative contracts	\$ —	\$ 901	\$ —	\$ 901

The contingent consideration as of September 26, 2020 and December 28, 2019, relates to the earnout provisions recorded in conjunction with various purchase agreements. The earnout provisions associated with these acquisitions are based upon performance measurements related to sales and earnings, as defined in the respective purchase agreement. On a quarterly basis, the company assesses the projected results for each acquired business in comparison to the earnout targets and adjusts the liability accordingly.

e) Consolidated Statements of Cash Flows

Cash paid for interest was \$51.1 million and \$61.7 million for the nine months ended September 26, 2020 and September 28, 2019, respectively. Cash payments totaling \$28.0 million and \$65.7 million were made for income taxes for the nine months ended September 26, 2020 and September 28, 2019, respectively.

f) Earnings Per Share

“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 and other dilutive securities.

The company’s potentially dilutive securities consist of shares issuable on vesting of restricted stock grants computed using the treasury method and amounted to 118,000 and 48,000, for the three and nine months periods ended September 26, 2020, respectively. There were no potentially dilutive securities for the three and nine months periods ended September 28, 2019. For the three and nine months periods ended September 26, 2020, as the average market price of the company’s common stock has not exceeded the exercise price the Convertible Notes and there have been no conversions to date, there is no impact to the diluted earnings per share. See Note 12, Financing Arrangements, in these Notes to the Condensed Consolidated Financial Statements included in this Part I, Item 1 of this Quarterly Report on Form 10-Q for further details on the Convertible Notes. There were no anti-dilutive restricted stock grants excluded from common stock equivalents in any period presented.

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, food processing equipment and residential kitchen 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 company also recognizes identifiable intangible assets, primarily trade names and customer relationships, at their fair value using a discounted cash flow model. The significant assumptions used to estimate the value of the intangible assets include revenue growth rates, projected profit margins, discount rates, royalty rates, and customer attrition rates. These significant assumptions are forward-looking and could be affected by future economic and market conditions. The results of operations are reflected in the consolidated financial statements of the company from the dates of acquisition.

The following represents the company's significant acquisitions in 2020 and 2019 as well as summarized information on various acquisitions that were not individually material. The company also made smaller acquisitions not presented below which are individually and collectively immaterial.

Cooking Solutions Group

On April 1, 2019, the company completed its acquisition of all of the capital stock of Cooking Solutions Group, Inc. ("Cooking Solutions Group") from Standex International Corporation, which consists of the brands APW Wyott, Bakers Pride, BKI and Ultrafryer with locations in Texas, South Carolina and Mexico for a purchase price of approximately \$106.1 million, net of cash acquired. During the third quarter of 2019, the company finalized the working capital provision provided for by the purchase agreement resulting in a payment due to the sellers of \$0.1 million.

The final allocation of consideration paid for the Cooking Solutions Group acquisition is summarized as follows (in thousands):

	(as initially reported) April 1, 2019	Measurement Period Adjustments	(as adjusted) April 1, 2019
Cash	\$ 843	\$ —	\$ 843
Current assets	33,666	(1,625)	32,041
Property, plant and equipment	15,959	(58)	15,901
Goodwill	31,207	6,330	37,537
Other intangibles	53,450	(5,850)	47,600
Other assets	—	1,470	1,470
Current liabilities	(15,130)	(1,583)	(16,713)
Long-term deferred tax liability	(13,082)	2,553	(10,529)
Other non-current liabilities	—	(1,163)	(1,163)
Net assets acquired and liabilities assumed	\$ 106,913	\$ 74	\$ 106,987

The long-term deferred tax liability amounted to \$10.5 million. The net deferred tax liability is comprised of \$11.6 million of deferred tax liability related to the difference between the book and tax basis on identifiable intangible asset and liability accounts and \$1.1 million of deferred tax asset related to the difference between the book and tax basis on identifiable tangible assets and liability accounts.

The goodwill and \$24.7 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also include \$22.5 million allocated to customer relationships and \$0.4 million allocated to backlog, which are being amortized over periods of 9 years and 3 months, respectively. Goodwill and other intangibles of Cooking Solutions Group are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

Other 2019 Acquisitions

During 2019, the company completed various other acquisitions that were not individually material. The estimated fair values of assets acquired and liabilities assumed are based on the information that was available as of the acquisition dates for the other 2019 acquisitions and are summarized as follows (in thousands):

	Preliminary Opening Balance Sheet	Preliminary Measurement Period Adjustments	Adjusted Opening Balance Sheet
Cash	\$ 2,683	\$ (10)	\$ 2,673
Current assets	21,525	1,016	22,541
Property, plant and equipment	8,920	(166)	8,754
Goodwill	99,838	(11,213)	88,625
Other intangibles	64,019	11,363	75,382
Long-term deferred tax asset	1,288	1,428	2,716
Other assets	137	854	991
Current liabilities	(20,437)	(348)	(20,785)
Other non-current liabilities	(6,170)	(4,129)	(10,299)
Consideration paid at closing	<u>\$ 171,803</u>	<u>\$ (1,205)</u>	<u>\$ 170,598</u>
Deferred payments	2,404	—	2,404
Contingent consideration	4,258	3,600	7,858
Net assets acquired and liabilities assumed	<u>\$ 178,465</u>	<u>\$ 2,395</u>	<u>\$ 180,860</u>

The long-term deferred tax asset amounted to \$2.7 million. The net deferred tax asset is comprised of \$2.9 million of deferred tax asset related to tax loss carryforwards, \$1.0 million of deferred tax liability related to the difference between the book and tax basis of identifiable intangible assets and \$0.8 million of deferred tax asset related to the difference between the book and tax basis on identifiable tangible asset and liability accounts.

The goodwill and \$33.8 million of other intangibles associated with the trade names are subject to the non-amortization provisions of ASC 350. Other intangibles also include \$27.9 million allocated to customer relationships, \$12.3 million allocated to developed technology and \$1.4 million allocated to backlog, which are being amortized over periods of 5 to 10 years, 5 to 12 years, and 3 months, respectively. Goodwill of \$42.6 million and other intangibles of \$35.5 million of the companies are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. Goodwill of \$34.9 million and other intangibles of \$30.1 million are allocated to the Food Processing Equipment Group for segment reporting purposes. Goodwill of \$11.2 million and other intangibles of \$9.8 million are allocated to the Residential Kitchen Equipment Group for segment reporting purposes. Of these assets, goodwill of \$77.8 million and intangibles of \$64.8 million are expected to be deductible for tax purposes.

Two purchase agreements include deferred payments and earnout provisions providing for contingent payments due to the sellers to the extent certain financial targets are exceeded. The deferred payments are payable between 2020 and 2022. The contractual obligations associated with the deferred payments on the acquisition dates amount to \$2.4 million. The earnouts are payable between 2021 and 2030, if the companies exceed certain sales and earnings targets. The contractual obligations associated with the contingent earnout provisions recognized on the acquisition dates amount to \$7.9 million.

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 for various 2019 acquisitions. Thus, the provisional measurements of fair value set forth above are subject to change. The company expects to complete the purchase price allocations during 2020.

2020 Acquisitions

As of September 26, 2020, the company has completed various acquisitions that were not individually material. The following estimated fair values of assets acquired and liabilities assumed are based on the information that was available as of the acquisition dates for the acquisitions and are summarized as follows (in thousands):

	Preliminary Opening Balance Sheet	Preliminary Measurement Period Adjustments	Adjusted Opening Balance Sheet
Cash	\$ 2,347	\$ —	\$ 2,347
Current assets	31,089	(12,908)	18,181
Property, plant and equipment	1,032	(241)	791
Goodwill	12,776	672	13,448
Other intangibles	16,484	—	16,484
Other assets	1,708	—	1,708
Current liabilities	(30,005)	12,477	(17,528)
Other non-current liabilities	(3,070)	—	(3,070)
Consideration paid at closing	<u>\$ 32,361</u>	<u>\$ —</u>	<u>\$ 32,361</u>
Deferred payments	1,250	—	1,250
Contingent consideration	<u>1,774</u>	<u>—</u>	<u>1,774</u>
Net assets acquired and liabilities assumed	<u>\$ 35,385</u>	<u>\$ —</u>	<u>\$ 35,385</u>

The goodwill and \$9.0 million of other intangibles associated with the trade names are subject to the non-amortization provisions of ASC 350. Other intangibles also include \$5.3 million allocated to customer relationships, \$0.2 million allocated to developed technology and \$2.0 million allocated to backlog, which are being amortized over periods of 7 years, 7 years, and 9 months, respectively. Goodwill of \$13.4 million and other intangibles of \$16.5 million of the companies are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes and are expected to be deductible for tax purposes.

One purchase agreement includes a deferred payment and earnout provision providing for contingent payments due to the sellers to the extent certain financial targets are exceeded. The deferred payment is payable during 2020. The contractual obligation associated with the deferred payments on the acquisition date is \$1.3 million. The earnout is payable in 2023, if the company exceeds certain sales and earnings targets. The contractual obligation associated with the contingent earnout provision recognized on the acquisition date is \$1.8 million.

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 for substantially all 2020 acquisitions to date. 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.

Pro Forma Financial Information

In accordance with ASC 805 *Business Combinations*, the following unaudited pro forma results of operations for the nine months ended September 26, 2020 and September 28, 2019, assumes the 2019 and 2020 acquisitions described above were completed on December 30, 2018 (first day of fiscal year 2019). The following pro forma results include adjustments to reflect amortization of intangibles associated with the acquisition and the effects of adjustments made to the carrying value of certain assets (in thousands, except per share data):

	Nine Months Ended	
	September 26, 2020	September 28, 2019
Net sales	\$ 1,786,481	\$ 2,262,959
Net earnings	158,115	231,068
Net earnings per share:		
Basic	\$ 2.87	\$ 4.15
Diluted	\$ 2.87	\$ 4.15

The historical consolidated financial information of the Company and the acquisitions have been adjusted in the pro forma information to give effect to pro forma events that are (1) directly attributable to the transactions, (2) factually supportable and (3) expected to have a continuing impact on the combined results. Pro forma data may not be indicative of the results that would have been obtained had these acquisitions occurred at the beginning of the periods presented, nor is it intended to be a projection of future results. Additionally, the pro forma financial information does not reflect the costs which the company has incurred or may incur to integrate the acquired businesses.

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 required accrual 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

Accounting Pronouncements - Recently Adopted

In June 2016, the FASB issued ASU 2016-13, "Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments", and has since modified the standard with several ASUs (collectively, the "new credit loss standard"). The new credit loss standard requires a financial asset (or a group of financial assets) measured at amortized cost basis to be presented at the net amount expected to be collected. The measurement of expected credit losses is based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts that affect the collectability of the reported amount. The company adopted the new standard as of December 29, 2019 (first day of fiscal year 2020) using the modified retrospective approach. As a result of the company's assessment process on its receivables and contract assets portfolio, which is the only financial instrument in scope of this standard, the adoption of this guidance did not have a material impact on the company's Condensed Consolidated Financial Statements.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment". The amendments in ASU-04 simplify the subsequent measurement of goodwill, by removing the second step of the goodwill impairment test. An entity will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value. The new guidance does not amend the optional qualitative assessment of goodwill impairment. The company adopted this guidance on December 29, 2019 on a prospective basis. The adoption of this guidance did not have an impact on the company's Condensed Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement". The amendments in ASU-13 remove, modify and add various disclosure requirements around fair value measurement in order to clarify and improve the cost-benefit nature of disclosures. The company adopted this guidance on December 29, 2019 on a prospective basis. The adoption of this guidance did not have an impact on the company's Condensed Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-15, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)". The amendments in ASU-15 align the requirements for capitalizing implementation costs in a service contract hosting arrangement with those of developing or obtaining internal-use software. The company adopted this guidance on December 29, 2019 on a prospective basis. The adoption of this guidance did not have an impact on the company's Condensed Consolidated Financial Statements.

Accounting Pronouncements - To be adopted

In August 2018, the FASB issued ASU 2018-14, "Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20)". The amendments in ASU-14 remove, modify and add various disclosure requirements around the topic in order to clarify and improve the cost-benefit nature of disclosures. This guidance is effective for annual reporting periods, and interim periods within those reporting periods, beginning after December 15, 2020 with early adoption permitted. The amendments must be applied on a retrospective basis for all periods presented. The company is currently evaluating the impacts the adoption of this guidance will have on its Condensed Consolidated Financial Statements.

In December 2019, the FASB issued ASU 2019-12, "Simplifying the Accounting for Income Taxes (Topic 740)", which removes certain exceptions related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. This guidance also clarifies and simplifies other areas of ASC 740. This guidance is effective for annual reporting periods, and interim periods within those reporting periods, beginning after December 15, 2020 with early adoption permitted. Certain amendments in this update must be applied on a prospective basis, certain amendments must be applied on a retrospective basis, and certain amendments must be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings in the period of adoption. The company is currently evaluating the impacts the adoption of this guidance will have on its Condensed Consolidated Financial Statements.

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting". Subject to meeting certain criteria, ASU 2020-04 provides optional expedients and exceptions to applying contract modification accounting under existing generally accepted accounting principles, for contracts that are modified to address the expected phase out of the London Inter-bank Offered Rate ("LIBOR") by the end of 2021. Some of the Company's contracts with respect to its borrowings and interest rate swap contracts already contain comparable alternative reference rates that would automatically take effect upon the phasing out of LIBOR, while for others, the company anticipates negotiating comparable replacement rates with its counterparties. This guidance is effective for all entities from the beginning of an interim period that includes the issuance date of the ASU. An entity may elect to apply the amendments prospectively through December 31, 2022. The company is currently evaluating the impacts the adoption of this guidance will have on its Condensed Consolidated Financial Statements.

In August 2020, the FASB issued ASU No. 2020-06, "Debt-Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity's Own Equity", which simplifies the accounting for convertible instruments by eliminating the requirement to separate embedded conversion features from the host contract when the conversion features are not required to be accounted for as derivatives under Topic 815, Derivatives and Hedging, or that do not result in substantial premiums accounted for as paid-in capital. By removing the separation model, a convertible debt instrument will be reported as a single liability instrument with no separate accounting for embedded conversion features. This new standard also removes certain settlement conditions that are required for contracts to qualify for equity classification and simplifies the diluted earnings per share calculations by requiring that an entity use the if-converted method and that the effect of potential share settlement be included in diluted earnings per share calculations. This guidance is effective for annual reporting periods, and interim periods within those reporting periods, beginning after December 15, 2021 with early adoption permitted. Adoption is either a modified retrospective method or a fully retrospective. The company is currently evaluating early adoption and the impacts this guidance will have on its Condensed Consolidated Financial Statements.

5) Revenue Recognition

Disaggregation of Revenue

The company disaggregates its net sales by reportable operating segment and geographical location as the company believes it best depicts how the nature, timing and uncertainty of its net sales and cash flows are affected by economic factors. In general, the Commercial Foodservice Equipment and Residential Foodservice Equipment Groups recognize revenue at the point in time control transfers to their customers based on contractual shipping terms. Revenue from equipment sold under the company's long-term contracts within the Food Processing Equipment group is recognized over time as the equipment is manufactured and assembled. The following table summarizes the company's net sales by reportable operating segment and geographical location (in thousands):

	Commercial Foodservice	Food Processing	Residential Kitchen	Total
Three Months Ended September 26, 2020				
United States and Canada	\$ 265,793	\$ 82,126	\$ 97,318	\$ 445,237
Asia	39,864	4,711	1,875	46,450
Europe and Middle East	60,603	18,600	52,216	131,419
Latin America	4,963	5,211	1,245	11,419
Total	<u>\$ 371,223</u>	<u>\$ 110,648</u>	<u>\$ 152,654</u>	<u>\$ 634,525</u>
Nine Months Ended September 26, 2020				
United States and Canada	\$ 768,202	\$ 227,770	\$ 264,116	\$ 1,260,088
Asia	104,936	18,460	3,753	127,149
Europe and Middle East	180,187	57,051	117,187	354,425
Latin America	28,522	13,196	581	42,299
Total	<u>\$ 1,081,847</u>	<u>\$ 316,477</u>	<u>\$ 385,637</u>	<u>\$ 1,783,961</u>
Three Months Ended September 28, 2019				
United States and Canada	\$ 346,616	\$ 57,255	\$ 86,859	\$ 490,730
Asia	53,463	5,100	1,490	60,053
Europe and Middle East	82,244	21,125	44,395	147,764
Latin America	18,667	5,667	1,133	25,467
Total	<u>\$ 500,990</u>	<u>\$ 89,147</u>	<u>\$ 133,877</u>	<u>\$ 724,014</u>
Nine Months Ended September 28, 2019				
United States and Canada	\$ 1,004,609	\$ 172,944	\$ 270,689	\$ 1,448,242
Asia	153,787	21,836	4,355	179,978
Europe and Middle East	258,102	67,624	142,016	467,742
Latin America	55,302	17,070	3,486	75,858
Total	<u>\$ 1,471,800</u>	<u>\$ 279,474</u>	<u>\$ 420,546</u>	<u>\$ 2,171,820</u>

Contract Balances

Contract assets primarily relate to the company's right to consideration for work completed but not billed at the reporting date and are recorded in prepaid expenses and other in the Condensed Consolidated Balance Sheet. Contract assets are transferred to receivables when the right to consideration becomes unconditional. Accounts receivable are not considered contract assets under the revenue standard as contract assets are conditioned upon the company's future satisfaction of a performance obligation. Accounts receivable, in contracts, are unconditional rights to consideration.

Contract liabilities relate to advance consideration received from customers for which revenue has not been recognized. Current contract liabilities are recorded in accrued expenses in the Condensed Consolidated Balance Sheet. Non-current contract liabilities are recorded in other non-current liabilities in the Condensed Consolidated Balance Sheet. Contract liabilities are reduced when the associated revenue from the contract is recognized.

The following table provides information about contract assets and contract liabilities from contracts with customers (in thousands):

	Sep 26, 2020		Dec 28, 2019	
Contract assets	\$	21,345	\$	22,675
Contract liabilities	\$	86,103	\$	74,511
Non-current contract liabilities	\$	12,488	\$	12,870

During the nine months period ended September 26, 2020, the company reclassified \$13.0 million to receivables, which was included in the contract asset balance at the beginning of the period. During the nine months period ended September 26, 2020, the company recognized revenue of \$43.8 million which was included in the contract liability balance at the beginning of the period. Additions to contract liabilities representing amounts billed to clients in excess of revenue recognized to date were \$70.9 million during the nine months period ended September 26, 2020. The increase in contract liabilities primarily relates to companies acquired during the nine months period ended September 26, 2020. Substantially, all of the company's outstanding performance obligations will be satisfied within 12 to 36 months. There were no contract asset impairments during the nine months period ended September 26, 2020.

6) 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".

Changes in accumulated other comprehensive income⁽¹⁾ were as follows (in thousands):

	Currency Translation Adjustment	Pension Benefit Costs	Unrealized Gain/(Loss) Interest Rate Swap	Total
Balance as of December 28, 2019	\$ (105,705)	\$ (228,336)	\$ (16,892)	\$ (350,933)
Other comprehensive income before reclassification	(3,213)	6,184	(35,646)	(32,675)
Amounts reclassified from accumulated other comprehensive income	—	—	10,419	10,419
Net current-period other comprehensive income	\$ (3,213)	\$ 6,184	\$ (25,227)	\$ (22,256)
Balance as of September 26, 2020	\$ (108,918)	\$ (222,152)	\$ (42,119)	\$ (373,189)
Balance as of December 29, 2018	\$ (112,771)	\$ (170,938)	\$ 7,233	\$ (276,476)
Adoption of ASU 2017-12 (2)	—	—	11	11
Other comprehensive income before reclassification	(27,190)	4,966	(27,201)	(49,425)
Amounts reclassified from accumulated other comprehensive income	—	—	(1,953)	(1,953)
Net current-period other comprehensive income	\$ (27,190)	\$ 4,966	\$ (29,143)	\$ (51,367)
Balance as of September 28, 2019	\$ (139,961)	\$ (165,972)	\$ (21,910)	\$ (327,843)

(1) As of September 26, 2020, pension and interest rate swap amounts are net of tax of \$(47.3) million and \$(15.3) million, respectively. During the nine months ended September 26, 2020, the adjustments to pension benefit costs and unrealized gain/(loss) interest rate swap were net of tax of \$1.3 million and \$(9.3) million, respectively. As of September 28, 2019 pension and interest rate swap amounts are net of tax of \$(35.8) million and \$(7.3) million, respectively. During the nine months ended September 28, 2019, the adjustments to pension benefit costs and unrealized gain/(loss) interest rate swap were net of tax of \$1.0 million and \$(9.9) million, respectively.

(2) As of December 30, 2018, the company adopted ASU No. 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities" using the modified retrospective method. The adoption of this guidance resulted in the recognition of less than \$0.1 million as an adjustment to the opening balance of retained earnings.

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

	Three Months Ended		Nine Months Ended	
	Sep 26, 2020	Sep 28, 2019	Sep 26, 2020	Sep 28, 2019
Net earnings	\$ 60,516	\$ 82,020	\$ 155,457	\$ 243,243
Currency translation adjustment	25,851	(25,428)	(3,213)	(27,190)
Pension liability adjustment, net of tax	(6,133)	4,975	6,184	4,966
Unrealized gain (loss) on interest rate swaps, net of tax	2,653	(5,652)	(25,227)	(29,143)
Comprehensive income	\$ 82,887	\$ 55,915	\$ 133,201	\$ 191,876

7) Inventories

Inventories are composed of material, labor and overhead and are stated at the lower of cost or market. Costs for 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 26, 2020 and December 28, 2019 are as follows (in thousands):

	Sep 26, 2020	Dec 28, 2019
Raw materials and parts	\$ 274,769	\$ 277,394
Work-in-process	59,496	58,663
Finished goods	223,247	249,642
	<u>\$ 557,512</u>	<u>\$ 585,699</u>

8) Goodwill

Changes in the carrying amount of goodwill for the nine months ended September 26, 2020 are as follows (in thousands):

	Commercial Foodservice	Food Processing	Residential Kitchen	Total
Balance as of December 28, 2019	\$ 1,153,552	\$ 257,679	\$ 438,516	\$ 1,849,747
Goodwill acquired during the year	13,448	—	—	13,448
Measurement period adjustments to goodwill acquired in prior year	(55)	(8,732)	1,673	(7,114)
Exchange effect	3,571	2,706	(6,997)	(720)
Balance as of September 26, 2020	<u>\$ 1,170,516</u>	<u>\$ 251,653</u>	<u>\$ 433,192</u>	<u>\$ 1,855,361</u>

The company continues to monitor the global outbreak of the COVID-19 pandemic to assess the outlook for demand of its products and the impact on its business and financial performance. The potential impact of the COVID-19 pandemic on demand, production levels, and its operating results in the short-term is uncertain, but the company remains committed to the strategic actions necessary to realize long-term revenue and cash flow growth rates. The potential negative demand effect on revenues is also uncertain given the volatile environment, but demand and production levels are anticipated to recover.

As a result of the company's analysis, and in consideration of the totality of events and circumstances, there were no triggering events requiring an interim goodwill impairment assessment identified during the nine months period ended September 26, 2020.

Additionally, for the assessment of indefinite-life intangible assets other than goodwill, primarily trademarks and trade names, the company identified several trademarks and trade names with indicators of potential risk for impairment and performed quantitative assessments. The fair values of the trademarks tested exceeded their carrying values by more than 10%. As a result, no impairment charges for goodwill and indefinite-lived intangible assets were recorded during the nine months period ended September 26, 2020.

9) Intangibles

Intangible assets consist of the following (in thousands):

	September 26, 2020			December 28, 2019		
	Estimated Weighted Avg Remaining Life	Gross Carrying Amount	Accumulated Amortization	Estimated Weighted Avg Remaining Life	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:						
Customer lists	8.7	\$ 726,631	\$ (331,670)	9.2	\$ 717,397	\$ (283,846)
Backlog	0.5	31,336	(30,389)	1.3	29,426	(28,283)
Developed technology	7.3	36,351	(23,678)	5.2	32,999	(21,378)
		<u>\$ 794,318</u>	<u>\$ (385,737)</u>		<u>\$ 779,822</u>	<u>\$ (333,507)</u>
Indefinite-lived assets:						
Trademarks and tradenames		<u>\$ 1,012,019</u>			<u>\$ 997,066</u>	

The aggregate intangible amortization expense was \$16.9 million and \$17.3 million for the three months period ended September 26, 2020 and September 28, 2019, respectively. The aggregate intangible amortization expense was \$51.4 million and \$48.1 million for the nine months period ended September 26, 2020 and September 28, 2019, respectively. The estimated future amortization expense of intangible assets is as follows (in thousands):

Twelve Month Period coinciding with the end of the company's Fiscal Third Quarter	Amortization Expense
2021	\$ 64,119
2022	60,564
2023	54,096
2024	45,053
2025	35,892
Thereafter	148,857
	<u>\$ 408,581</u>

10) Accrued Expenses

Accrued expenses consist of the following (in thousands):

	Sep 26, 2020	Dec 28, 2019
Contract liabilities	\$ 86,103	\$ 74,511
Accrued payroll and related expenses	71,526	80,621
Accrued warranty	67,714	66,374
Accrued customer rebates	33,418	51,709
Accrued sales and other tax	23,438	19,862
Accrued short-term leases	23,297	21,827
Accrued interest rate swaps	15,282	—
Accrued product liability and workers compensation	13,134	15,164
Accrued professional fees	12,291	13,368
Accrued agent commission	10,562	13,816
Accrued restructuring	5,818	1,121
Other accrued expenses	58,997	58,177
	<u>\$ 421,580</u>	<u>\$ 416,550</u>

11) 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 (in thousands):

	Nine Months Ended Sep 26, 2020
Balance as of December 28, 2019	\$ 66,374
Warranty reserve related to acquisitions	1,335
Warranty expense	42,480
Warranty claims	(42,475)
Balance as of September 26, 2020	<u>\$ 67,714</u>

12) Financing Arrangements

	Sep 26, 2020	Dec 28, 2019
	(in thousands)	
Senior secured revolving credit line	\$ 854,758	\$ 1,869,402
Term loan facility	345,312	—
Convertible senior notes	627,006	—
Foreign loans	4,967	3,622
Other debt arrangement	82	116
Total debt	1,832,125	1,873,140
Less: Current maturities of long-term debt	23,152	2,894
Long-term debt	1,808,973	1,870,246

On January 31, 2020, the company entered into an amended and restated five-year, \$3.5 billion multi-currency senior secured credit agreement (as amended as described below, the "Credit Facility"). The Credit Facility amended the company's pre-existing \$3.0 billion credit facility, which had an original maturity of July 2021, to provide for (i) a \$750.0 million term loan facility and (ii) a \$2.75 billion multi-currency revolving credit facility, with the potential under certain circumstances, to increase the amount of the credit facility to up to a total of \$4.0 billion (plus additional amounts, subject to compliance with a senior secured net leverage ratio). The Credit Facility matures on January 31, 2025. The term loan facility will amortize in equal quarterly installments due on the last day of each fiscal quarter, commencing with the first full fiscal quarter after January 31, 2020, in an aggregate annual amount equal to 2.50% of the original aggregate principal amount of the term loan facility, with the balance, plus any accrued interest, due and payable on January 31, 2025.

On August 21, 2020, the company issued \$747.5 million aggregate principal amount of 1.00% Convertible Senior Notes due 2025 (the "Convertible Notes") in a private offering pursuant to an indenture, dated August 21, 2020 (the "Indenture"), between the company and U.S. Bank National Association, as trustee. The net proceeds from the sale of the Convertible Notes were approximately \$729.9 million after deducting the initial purchasers' discounts and the offering expenses payable by the company. In connection with the pricing of the Convertible Notes, the company entered into privately negotiated capped call transactions (the "Capped Call Transactions") and the company used the net proceeds to pay the aggregate amount of \$104.7 million for them. The Capped Call Transactions initially cover, subject to customary anti-dilution adjustments, the number of shares of the company's common stock that underlie the Convertible Notes.

The company used a portion of the net proceeds from the offering of the Convertible Notes to prepay \$400.0 million aggregate principal amount of its term loan obligations owed under its Credit Facility; which was amended concurrently with the issuance of the Convertible Notes. The Credit Facility, as amended, is in an aggregate principal amount of \$3.1 billion, consisting of (i) a \$350 million term loan facility and (ii) a \$2.75 billion multi-currency revolving credit facility. The maturity date remains unchanged at January 31, 2025. The company intends to use the remaining net proceeds for general corporate purposes, including the financing of its operations, the potential repayment of additional indebtedness and potential acquisitions and other strategic transactions.

Credit Facility

As of September 26, 2020, the company had \$1.2 billion of borrowings outstanding under the Credit Facility, including \$814.0 million of borrowings in U.S. Dollars, \$40.8 million of borrowings denominated in British Pounds, and \$345.3 million outstanding under the term loan. The company also had \$13.4 million in outstanding letters of credit as of September 26, 2020, which reduces the borrowing availability under the Credit Facility. Remaining borrowing availability under this facility was \$1.9 billion at September 26, 2020.

At September 26, 2020, borrowings under the Credit Facility accrued interest at a rate of 1.625% above LIBOR per annum or 0.625% above the highest of the prime rate, the federal funds rate plus 0.50% and one month LIBOR plus 1.00%. The average interest rate per annum, inclusive of hedging instruments, on the debt under the Credit Facility was equal to 3.75% at the end of the period. The interest rates on borrowings under the Credit Facility may be adjusted quarterly based on the company's Funded Debt less Unrestricted Cash to Pro Forma EBITDA (the "Leverage Ratio") on a rolling four-quarter basis. Additionally, a commitment fee based upon the Leverage Ratio is charged on the unused portion of the commitments under the Credit Facility. This variable commitment fee was equal to 0.25% per annum as of September 26, 2020. As a result of the amendment, for the quarterly periods extending through the second fiscal quarter of 2021, borrowings under the Credit Facility will accrue interest at a minimum of 2.00% above LIBOR and the variable unused commitment fee will be at a minimum of 0.35%.

The term loan facility had an average interest rate per annum, inclusive of hedging instruments, of 2.83% as of September 26, 2020.

In addition, the company has other international credit facilities to fund working capital needs outside the United States and the United Kingdom. At September 26, 2020, these foreign credit facilities amounted to \$5.0 million in U.S. Dollars with a weighted average per annum interest rate of approximately 6.08%.

The company's debt is reflected on the balance sheet at cost. The fair values of the Credit Facility, term debt and foreign and other debt is based on the amount of future cash flows associated with each instrument discounted using the company's incremental borrowing rate. The company believes its interest rate margins on its existing debt are consistent with current market conditions and therefore the carrying value of debt reflects the fair value. The interest rate margin is based on the company's Leverage Ratio. The carrying value and estimated aggregate fair value, a level 2 measurement, based primarily on market prices, of debt excluding the Convertible Notes is as follows (in thousands):

	Sep 26, 2020		Dec 28, 2019	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Total debt excluding convertible senior notes	\$ 1,205,119	\$ 1,205,119	\$ 1,873,140	\$ 1,873,140

The company uses floating-to-fixed interest rate swap agreements to hedge variable interest rate risk associated with the Credit Facility. At September 26, 2020, the company had outstanding floating-to-fixed interest rate swaps totaling \$251.0 million notional amount carrying an average interest rate of 2.39% maturing in less than 12 months and \$862.0 million notional amount carrying an average interest rate of 1.87% that mature in more than 12 months but less than 84 months.

The terms of the Credit Facility, as amended, limit the ability of the company and its subsidiaries to, with certain exceptions: incur indebtedness; grant liens; engage in certain mergers, consolidations, acquisitions and dispositions; make restricted payments; enter into certain transactions with affiliates; and requires, among other things, the company to satisfy certain financial covenants: (i) a minimum Interest Coverage Ratio (as defined in the Credit Facility) of 3.00 to 1.00, (ii) a maximum Total Leverage Ratio of Funded Debt less Unrestricted Cash to Pro Forma EBITDA (each as defined in the Credit Facility) of 5.50 to 1.00, and (iii) a maximum Secured Leverage Ratio of Funded Debt less Unrestricted Cash to Pro Forma EBITDA (each as defined in the Credit Facility) of 3.50 to 1.00; which may be adjusted to 4.00 to 1.00 for a four consecutive fiscal quarter period in connection with certain qualified acquisitions, subject to the terms and conditions contained in the Credit Facility. However, the maximum secured leverage ratio is permitted to be at higher amounts for periods extending through the second fiscal quarter of 2021, after which time covenants will revert to their original levels. The Credit Facility is secured by substantially all of the assets of Middleby Marshall, the company and the company's domestic subsidiaries and is unconditionally guaranteed by, subject to certain exceptions, the company and certain of the company's direct and indirect material foreign and domestic subsidiaries. The Credit Facility contains certain customary events of default, including, but not limited to, the failure to make required payments; bankruptcy and other insolvency events; the failure to perform certain covenants; the material breach of a representation or warranty; non-payment of certain other indebtedness; the entry of undischarged judgments against the company or any subsidiary for the payment of material uninsured amounts; the invalidity of the company guarantee or any subsidiary guaranty; and a change of control of the company. At September 26, 2020, the company was in compliance with all covenants pursuant to its borrowing agreements.

The company has run various scenarios to estimate the impact of the COVID-19 pandemic and continues to believe that its future cash generated from operations, together with its capacity under its Credit Facility and its cash on hand, will provide adequate resources to meet its working capital needs and cash requirements and maintain compliance with financial covenants in its Credit Facility for at least the next 12 months.

Convertible Notes

The following table summarizes the outstanding principal amount and carrying value of the Convertible Notes:

	Sep 26, 2020 (in thousands)
Principal amounts:	
Principal	\$ 747,500
Unamortized debt discount	(120,494)
Net carrying amount	<u>\$ 627,006</u>

The following table summarizes total interest expense recognized related to the Convertible Notes:

	Nine Months Ended Sep 26, 2020
Contractual interest expense	\$ 726
Interest cost related to amortization of the debt discount and issuance costs	2,130
Total interest expense	<u>\$ 2,856</u>

The estimated fair value of the Convertible Notes was \$740.7 million as of September 26, 2020 and was determined through consideration of quoted market prices. The fair value is classified as Level 2, as defined in Note 1 (d), Fair Value Measurements, in these Notes to the Condensed Consolidated Financial Statements included in this Part I, Item 1 of this Quarterly Report on Form 10-Q. The if-converted value of the Convertible Notes did not exceed their respective principal value as of September 26, 2020.

The Convertible Notes are general unsecured obligations of the company. The Convertible Notes rank senior in right of payment to any of the company's future indebtedness that is expressly subordinated in right of payment to the Convertible Notes; rank equal in right of payment to the company's existing and future unsecured indebtedness that is not so subordinated; are effectively subordinated in right of payment to any of the company's secured indebtedness to the extent of the value of the assets securing such indebtedness; and are structurally subordinated to all existing and future indebtedness and liabilities of the company's subsidiaries.

In accounting for the issuance of the Convertible Notes, the company separated the Convertible Notes into liability and equity components. The carrying amount of the liability component was calculated by measuring the fair value of a similar liability that does not have an associated convertible feature. The carrying amount of the equity component, representing the conversion option, which does not meet the criteria for separate accounting as a derivative as it is indexed to the company's own stock, was determined by deducting the fair value of the liability component from the par value of the Convertible Notes. The difference between the principal amount of the Convertible Notes and the liability component represents the debt discount, which is recorded as a direct deduction from the related debt liability in the Condensed Consolidated Balance Sheets and amortized to interest expense using the effective interest method over the term of the Convertible Notes. The effective interest rate of the Convertible Notes is 4.7%. The equity component of the Convertible Notes of approximately \$105.0 million is included in the additional paid-in capital in the Condensed Consolidated Balance Sheets and is not remeasured as long as it continues to meet the conditions for equity classification. The company allocated transaction costs related to the Convertible Notes using the same proportions as the proceeds from the Convertible Notes. Transaction costs attributable to the liability component were recorded as a direct deduction from the related debt liability in the Condensed Consolidated Balance Sheets and amortized to interest expense over the term of the Convertible Notes, and transaction costs attributable to the equity component were netted with the equity component in shareholders' equity.

The Convertible Notes were issued pursuant to the Indenture and bear interest semi-annually in arrears at a rate of 1.00% per annum on March 1 and September 1 of each year. The Convertible Notes are convertible based upon an initial conversion rate of 7.7746 shares of the company's common stock per \$1,000 principal amount of the Convertible Notes, which is equivalent to an initial conversion price of approximately \$128.62 per share of the company's common stock. The conversion rate will be subject to adjustment upon occurrence of certain specified events in accordance with the Indenture, but will not be adjusted for accrued and unpaid interest. Additionally, in the event of a Fundamental Change (as defined in the Indenture), holders of the Convertible Notes may require the company to repurchase all or a portion of their Convertible Notes at a price equal to 100.0% of the principal amount of Convertible Notes, plus any accrued and unpaid interest to, but excluding, the repurchase date. Upon conversion, the company will pay cash up to the aggregate principal amount of the Convertible Notes to be converted and pay or deliver, as the case may be, cash, shares of common stock or a combination of cash and shares of common stock, at the company's election, in respect of the remainder, if any, of the company's conversion obligation in excess of the aggregate principal amount of the notes being converted.

The Convertible Notes will mature on September 1, 2025 unless they are redeemed, repurchased or converted prior to such date in accordance with their terms. Prior to the close of business on the business day immediately preceding June 1, 2025, the notes will be convertible at the option of the holders only under the following circumstances: (1) during any fiscal quarter commencing after the fiscal quarter ending on January 2, 2021 (and only during such fiscal quarter), if the last reported sale price of the company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130.0% of the conversion price for the Convertible Notes on each applicable trading day; (2) during the five business day period after any ten consecutive trading day period in which the trading price per \$1,000 principal amount of the Convertible Notes for each trading day of that ten consecutive trading day period was less than 98.0% of the product of the last reported sale price of the company's common stock and the conversion rate of the Convertible Notes on each such trading day; (3) if the company calls such Convertible Notes for redemption; or (4) upon the occurrence of specified corporate events. On or after June 1, 2025, the notes will be convertible at the option of the holders at any time until the close of business on the second scheduled trading day immediately preceding the maturity date. Holders of the Convertible Notes who convert in connection with a Make-Whole Fundamental Change or during a Redemption Period (each as defined in the Indenture) will be, under certain circumstances, entitled to an increase in the conversion rate.

The company may settle the conversions of the Convertible Notes in cash, shares of the company's common stock or any combination thereof at its election. The number of shares of the company's common stock issuable at the conversion price of \$128.62 per share is expected to be 5.8 million shares. However, the Capped Call Transactions are expected generally to reduce the potential dilution of the company's common stock upon any conversion of Convertible Notes and/or offset the cash payments the company is required to make in excess of the principal amount of the Notes. Under the Capped Call Transactions, the number of shares of common stock issuable at the conversion price of \$207.93 is expected to be 3.6 million shares.

The Convertible Notes were not convertible during the nine months period ended September 26, 2020 and none have been converted to date. Also given the average market price of the company's common stock has not exceeded the exercise price for the three and nine months periods ended September 26, 2020, there is no impact to the diluted earnings per share.

The company may redeem all or any portion of the Convertible Notes, at its option, on or after September 5, 2023 and prior to the 41st scheduled trading day immediately preceding the maturity date, at a redemption price equal to 100.0% of the principal amount of the Convertible Notes to be redeemed, plus accrued and unpaid interest thereon, if the last reported sales price of the company's common stock has been at least 130.0% of the conversion price then in effect for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period (including the last trading day of such period) ending on, and including, the trading day immediately preceding the date on which the company provides written notice of redemption.

The Indenture includes customary terms and covenants, including certain events of default after which the Convertible Notes may become due and payable immediately.

Capped Call Transactions

The Capped Call Transactions are expected generally to reduce the potential dilution and/or offset the cash payments the company is required to make in excess of the principal amount of the Convertible Notes upon conversion of the Convertible Notes in the event that the market price per share of the company's common stock is greater than the strike price of the Capped Call Transactions (which initially corresponds to the initial conversion price of the Convertible Notes and is subject to certain adjustments under the terms of the Capped Call Transactions), with such reduction and/or offset subject to a cap based on the cap price of the Capped Call Transactions. The Capped Call Transactions have an initial cap price of \$207.93 per share of the company's common stock. The Capped Call Transactions cover, initially, the number of shares of the company's common stock underlying the Convertible Notes, subject to anti-dilution adjustments substantially similar to those applicable to the Convertible Notes.

The Capped Call Transactions are separate transactions entered into by the company with the capped call counterparties, and are not part of the terms of the Convertible Notes and will not affect any holder's right under the Convertible Notes. Holders of the Convertible Notes will not have any rights with respect to the Capped Call Transactions. The Capped Call Transactions do not meet the criteria for separate accounting as a derivative as they are indexed to the company's stock. The premiums paid of the Capped Call Transactions have been included as a net reduction to additional paid-in capital with stockholders' equity.

13) 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 the 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.

Foreign Exchange: The company uses foreign currency forward, foreign exchange swaps and option purchase and sales contracts 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 fair value of the forward and option contracts was a gain of \$0.2 million at the end of the third quarter of 2020.

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 26, 2020, the fair value of these instruments was a liability of \$57.8 million. The change in fair value of these swap agreements in the first nine months of 2020 was a loss of \$25.2 million, net of taxes.

The following table summarizes the company's fair value of interest rate swaps (in thousands):

	Condensed Consolidated Balance Sheet Presentation	Sep 26, 2020	Dec 28, 2019
Fair value	Other assets	\$ —	\$ 1,830
Fair value	Accrued expenses	\$ 15,282	\$ —
Fair value	Other non-current liabilities	\$ 42,538	\$ 25,120

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

	Presentation of Gain/(loss)	Three Months Ended		Nine Months Ended	
		Sep 26, 2020	Sep 28, 2019	Sep 26, 2020	Sep 28, 2019
Gain/(loss) recognized in accumulated other comprehensive income	Other comprehensive income	\$ (1,545)	\$ (7,114)	\$ (44,949)	\$ (37,090)
Gain/(loss) reclassified from accumulated other comprehensive income (effective portion)	Interest expense	\$ (5,158)	\$ 403	\$ (10,419)	\$ 1,953

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 that are counterparties to such swap agreements and assesses their creditworthiness prior to entering into the interest rate swap agreements and throughout the term. 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.

14) Segment Information

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

The Commercial Foodservice Equipment Group manufactures, sells, and distributes foodservice equipment for the restaurant and institutional kitchen industry. This business segment has manufacturing facilities in Arkansas, California, Illinois, Massachusetts, Michigan, New Hampshire, North Carolina, Ohio, Oregon, Pennsylvania, South Carolina, Tennessee, Texas, Vermont, Washington, Australia, China, Denmark, Estonia, Italy, Mexico, the Philippines, Poland, Sweden and the United Kingdom. Principal product lines of this group include conveyor ovens, combi-ovens, convection ovens, baking ovens, proofing ovens, deck ovens, speed cooking ovens, hydrovection ovens, ranges, fryers, rethermalizers, steam cooking equipment, food warming equipment, catering equipment, heated cabinets, charbroilers, ventless cooking systems, kitchen ventilation, induction cooking equipment, countertop cooking equipment, toasters, griddles, charcoal grills, professional mixers, stainless steel fabrication, custom millwork, professional refrigerators, blast chillers, coldrooms, ice machines, freezers, and soft serve ice cream, coffee, and beverage dispensing equipment. These products are sold and marketed under the brand names: Anets, APW Wyott, Bakers Pride, Beech, BKI, Blodgett, Blodgett Combi, Blodgett Range, Bloomfield, Britannia, CTX, Carter-Hoffmann, Celfrost, Concordia, CookTek, Crown, Desmon, Deutsche, Doyon, Eswood, EVO, Firex, Follett, Frifri, Giga, Globe, Goldstein, Holman, Houno, IMC, Induc, Jade, JoeTap, Josper, L2F, Lang, Lincat, MagiKitch'n, Market Forge, Marsal, Middleby Marshall, MPC, Nieco, Nu-Vu, PerfectFry, Pitco, QualServ, RAM, SiteSage, Southbend, Star, Sveba Dahlen, Ss Brewtech, Synesso, Taylor, Toastmaster, TurboChef, Ultrafryer, Varimixer, Wells and Wunder-Bar.

The Food Processing Equipment Group manufactures preparation, cooking, packaging, food handling and food safety equipment for the food processing industry. This business segment has manufacturing operations in Georgia, Illinois, Iowa, North Carolina, Oklahoma, Pennsylvania, Texas, Virginia, Washington, Wisconsin, Denmark, France, Germany, India and the United Kingdom. Principal product lines of this group include batch ovens, baking ovens, proofing ovens, conveyor belt ovens, continuous processing ovens, frying systems and automated thermal processing systems, grinders, slicers, reduction and emulsion systems, mixers, blenders, battering equipment, breading equipment, seeding equipment, water cutting systems, food presses, food suspension equipment, filling and depositing solutions, forming equipment, automated loading and unloading systems, food safety, food handling, freezing, defrosting and packaging equipment. These products are sold and marketed under the brand names: Alkar, Armor Inox, Auto-Bake, Baker Thermal Solutions, Burford, Cozzini, CVP Systems, Danfotech, Drake, Emico, Glimek, Hinds-Bock, Maurer-Atmos, MP Equipment, M-TEK, Pacpro, RapidPak, Scanico, Spooner Vicars, Stewart Systems, Thurne and Ve.Ma.C.

The Residential Kitchen Equipment Group manufactures, sells and distributes kitchen equipment for the residential market. This business segment has manufacturing facilities in California, Michigan, Mississippi, Oregon, Wisconsin, France, Ireland, Romania and the United Kingdom. Principal product lines of this group are ranges, cookers, stoves, ovens, refrigerators, dishwashers, microwaves, cooktops, wine coolers, ice machines, ventilation equipment and outdoor equipment. These products are sold and marketed under the brand names: AGA, AGA Cookshop, Brava, Brigade, EVO, Fired Earth, Heartland, La Cornue, Leisure Sinks, Lynx, Marvel, Mercury, Rangemaster, Rayburn, Redfyre, Sedona, Stanley, TurboChef, U-Line and Viking.

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.

Net Sales Summary **(dollars in thousands)**

	Three Months Ended				Nine Months Ended			
	Sep 26, 2020		Sep 28, 2019		Sep 26, 2020		Sep 28, 2019	
	Sales	Percent	Sales	Percent	Sales	Percent	Sales	Percent
<u>Business Segments:</u>								
Commercial Foodservice	\$ 371,223	58.5 %	\$ 500,990	69.2 %	\$ 1,081,847	60.6 %	\$ 1,471,800	67.8 %
Food Processing	110,648	17.4	89,147	12.3	316,477	17.7	279,474	12.9
Residential Kitchen	152,654	24.1	133,877	18.5	385,637	21.7	420,546	19.3
Total	<u>\$ 634,525</u>	<u>100.0 %</u>	<u>\$ 724,014</u>	<u>100.0 %</u>	<u>\$ 1,783,961</u>	<u>100.0 %</u>	<u>\$ 2,171,820</u>	<u>100.0 %</u>

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

	Commercial Foodservice	Food Processing	Residential Kitchen	Corporate and Other ⁽¹⁾	Total
Three Months Ended September 26, 2020					
Net sales	\$ 371,223	\$ 110,648	\$ 152,654	\$ —	\$ 634,525
Income (loss) from operations ⁽²⁾⁽³⁾	57,483	22,860	22,626	(16,297)	86,672
Depreciation expense	5,360	1,480	2,965	—	9,805
Amortization expense ⁽⁴⁾	12,923	1,794	2,170	692	17,579
Net capital expenditures	5,279	692	794	299	7,064
Nine Months Ended September 26, 2020					
Net sales	\$ 1,081,847	\$ 316,477	\$ 385,637	\$ —	\$ 1,783,961
Income (loss) from operations ⁽²⁾⁽³⁾	173,064	57,801	41,860	(41,521)	231,204
Depreciation expense	15,567	4,179	8,742	15	28,503
Amortization expense ⁽⁴⁾	38,257	5,494	7,627	1,713	53,091
Net capital expenditures	12,771	3,115	4,089	420	20,395
Total assets	\$ 3,155,360	\$ 628,156	\$ 1,149,550	\$ 87,118	\$ 5,020,184
Three Months Ended September 28, 2019					
Net sales	\$ 500,990	\$ 89,147	\$ 133,877	\$ —	\$ 724,014
Income (loss) from operations ⁽²⁾⁽³⁾	105,099	13,349	17,850	(14,953)	121,345
Depreciation expense	5,413	1,158	2,897	8	9,476
Amortization expense ⁽⁴⁾	12,230	2,616	2,413	402	17,661
Net capital expenditures	5,852	3,212	3,125	—	12,189
Nine Months Ended September 28, 2019					
Net sales	\$ 1,471,800	\$ 279,474	\$ 420,546	\$ —	\$ 2,171,820
Income (loss) from operations ⁽²⁾⁽³⁾	313,482	44,477	57,220	(53,166)	362,013
Depreciation expense	15,714	3,498	8,697	105	28,014
Amortization expense ⁽⁴⁾	34,519	6,223	7,308	1,208	49,258
Net capital expenditures	19,065	5,289	7,061	2,404	33,819
Total assets	\$ 3,162,315	\$ 606,186	\$ 1,129,935	\$ 30,092	\$ 4,928,528

(1) Includes corporate and other general company assets and operations.

(2) 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.

(3) Restructuring expenses are allocated in operating income by segment. See note 16 for further details.

(4) Includes amortization of deferred financing costs.

Geographic Information

Long-lived assets, not including goodwill and other intangibles (in thousands):

	Sep 26, 2020	Sep 28, 2019
United States and Canada	\$ 321,159	\$ 309,117
Asia	22,857	21,668
Europe and Middle East	152,914	139,486
Latin America	6,111	8,030
Total international	\$ 181,882	\$ 169,184
	\$ 503,041	\$ 478,301

15) Employee Retirement Plans

(a) Pension Plans

U.S. 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 company maintains a non-contributory defined benefit plan for its employees at the Smithville, Tennessee facility. 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 also maintains a retirement benefit agreement with its former Chairman ("Chairman Plan"). The retirement benefits are based upon a percentage of the former Chairman's final base salary.

Non-U.S. Plans:

The company maintains a defined benefit plan for its employees at the Wrexham, the United Kingdom facility. 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 maintains several pension plans related to AGA and its subsidiaries (collectively, the "AGA Group"), the most significant being the Aga Rangemaster Group Pension Scheme in the United Kingdom. Membership in the plan on a defined benefit basis of pension provision was closed to new entrants in 2001. The plan became open to new entrants on a defined contribution basis of pension provision in 2002, but was generally closed to new entrants on this basis during 2014.

The other, much smaller, defined benefit pension plans operating within the AGA Group cover employees in France and the United Kingdom. All pension plan assets are held in separate trust funds although the net defined benefit pension obligations are included in the company's consolidated balance sheet.

The following table summarizes the company's net periodic pension benefit related to the AGA Group pension plans (in thousands):

	Three Months Ended		Nine Months Ended	
	Sep 26, 2020	Sep 28, 2019	Sep 26, 2020	Sep 28, 2019
Net Periodic Pension Benefit:				
Service cost	\$ 649	\$ 593	\$ 1,918	\$ 1,839
Interest cost	6,456	7,995	19,086	24,776
Expected return on assets	(18,089)	(16,118)	(53,476)	(49,948)
Amortization of net loss (gain)	842	149	2,489	462
Amortization of prior service cost (credit)	642	614	1,897	1,904
Curtailement loss (gain)	—	185	—	573
	<u>\$ (9,500)</u>	<u>\$ (6,582)</u>	<u>\$ (28,086)</u>	<u>\$ (20,394)</u>

The pension costs for all other plans of the company were not material during the period. The service cost component is recognized within Selling, general and administrative expenses and the non-operating components of pension benefit are included within Net periodic pension benefit (other than service cost) in the Condensed Consolidated Statements of Comprehensive Income.

(b) Defined Contribution Plans

The company maintains two separate defined contribution 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 also maintains defined contribution plans for its United Kingdom based employees.

16) Restructuring

During fiscal 2019, the company undertook cost reduction initiatives related to the Commercial Foodservice Equipment Group including headcount reductions and facility consolidations. These actions resulted in an additional charge of \$0.5 million in the three months ended March 28, 2020. There were no additional expenses incurred in 2020 with respect to such cost reduction initiatives taken during fiscal 2019. These expenses are reflected in restructuring expenses in the Condensed Consolidated Statements of Comprehensive Income. At September 26, 2020, the restructuring obligations for these initiatives were completed with no future expenses expected.

During the second and third quarter of fiscal 2020, due to the COVID-19 pandemic, the company began cost reduction initiatives primarily related to headcount reductions and facility consolidations within the Commercial Foodservice Equipment Group. These actions resulted in a charge of \$7.0 million and \$8.6 million, in the three and nine months ended September 26, 2020, respectively. These expenses are reflected in restructuring expenses in the Condensed Consolidated Statements of Comprehensive Income. The company estimates that these restructuring initiatives will result in future cost savings of approximately \$20.0 million annually. At September 26, 2020, the restructuring obligations accrued for these initiatives is \$5.4 million and should substantially be completed by the end of fiscal 2020.

The restructuring expenses for the other segments of the company were not material during the period.

17) Share Repurchases

On November 7, 2017, the company's Board of Directors approved a stock repurchase program. This program authorizes the company to repurchase in the aggregate up to 2,500,000 shares of its outstanding common stock in open market purchase transactions. For the nine months ended September 26, 2020, the company repurchased 896,965 shares of its common stock under the program for \$69.7 million, including applicable commissions, which represented an average price of \$77.70. As of September 26, 2020, 1,023,165 shares had been purchased under the 2017 stock repurchase program.

The company also treats shares withheld for tax purposes on behalf of employees in connection with the vesting of restricted share grants as common stock repurchases because they reduce the number of shares that would have been issued upon vesting. For the nine months ended September 26, 2020, the company repurchased 108,473 shares of its common stock that were surrendered to the company for withholding taxes related to restricted stock vestings for \$7.5 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, the impact of COVID-19 pandemic and the response of governments, businesses and other third parties; 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 SEC filings, including the company's 2019 Annual Report on Form 10-K.

During the nine months period ended September 26, 2020, the company's business experienced significant disruptions due to the COVID-19 pandemic. In response, the company implemented swift actions to protect our employees, ensure uninterrupted service to our customers and aggressively adjust our business and cost structure for a decline in revenues. The company's actions include, but are not limited to the following:

- Employee Safety - Implemented companywide procedures including enhanced workplace sanitation, travel discontinuation, social distancing, staggered shifts and established work-at-home protocols for non-production employees.
- Customer Support - Ensured continued access to customer support, technical service and uninterrupted shipping of service parts and finished goods. Production continued to meet customer demand with minimal disruptions to address employee safety precautions.
- Cost and Profitability Initiatives - Instituted aggressive reduction of all controllable and discretionary costs. This included the adjustment of global office and production workforces in response to near-term reduced demand levels and reduced cash compensation to executives. Increased focus on prioritizing product and customers with highest profitability.
- Supply Chain - Established a task force to identify and mitigate supply chain disruption and ensure continuity of business operations and customer support.
- Liquidity and Cash Flow - Reduced capital expenditures for the remainder of year, enhanced working capital reduction initiatives to drive inventory efficiency, and suspended the Middleby share repurchase program. Maintained investments in key strategic initiatives. Improved our capital structure through the issuance of Convertible Notes and amended our Credit Facility to provide additional flexibility.
- COVID-19 Product Introductions - Developed and launched products addressing COVID-19 needs, including sterilization units for N95 masks, mobile and touchless handwashing stations, plexiglass safety shields for restaurants and retail locations, mobile foodservice stations and hand and cleaning sanitizer produced at our most recent acquired company Deutsche.

The company believes that these aggressive cost reduction and liquidity preservation actions serve to position us appropriately and provide additional operating and financial flexibility to successfully navigate this uncertain environment.

Net Sales Summary
(dollars in thousands)

	Three Months Ended				Nine Months Ended			
	Sep 26, 2020		Sep 28, 2019		Sep 26, 2020		Sep 28, 2019	
	Sales	Percent	Sales	Percent	Sales	Percent	Sales	Percent
Business Segments:								
Commercial Foodservice	\$ 371,223	58.5 %	\$ 500,990	69.2 %	\$ 1,081,847	60.6 %	\$ 1,471,800	67.8 %
Food Processing	110,648	17.4	89,147	12.3	316,477	17.7	279,474	12.9
Residential Kitchen	152,654	24.1	133,877	18.5	385,637	21.7	420,546	19.3
Total	<u>\$ 634,525</u>	<u>100.0 %</u>	<u>\$ 724,014</u>	<u>100.0 %</u>	<u>\$ 1,783,961</u>	<u>100.0 %</u>	<u>\$ 2,171,820</u>	<u>100.0 %</u>

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 26, 2020	Sep 28, 2019	Sep 26, 2020	Sep 28, 2019
Net sales	100.0 %	100.0 %	100.0 %	100.0 %
Cost of sales	64.9	62.7	64.9	62.5
Gross profit	35.1	37.3	35.1	37.5
Selling, general and administrative expenses	20.3	20.0	21.6	20.5
Restructuring	1.1	0.6	0.6	0.3
Income from operations	13.7	16.7	12.9	16.7
Interest expense and deferred financing amortization, net	2.9	2.9	3.1	2.9
Net periodic pension benefit (other than service costs)	(1.6)	(1.0)	(1.7)	(1.0)
Other (income) expense, net	—	0.2	0.2	—
Earnings before income taxes	12.4	14.6	11.3	14.8
Provision for income taxes	2.9	3.3	2.6	3.6
Net earnings	<u>9.5 %</u>	<u>11.3 %</u>	<u>8.7 %</u>	<u>11.2 %</u>

Three Months Ended September 26, 2020 as compared to Three Months Ended September 28, 2019

NET SALES. Net sales for the three months period ended September 26, 2020 decreased by \$89.5 million or 12.4% to \$634.5 million as compared to \$724.0 million in the three months period ended September 28, 2019. Net sales increased by \$8.0 million, or 1.1%, from the fiscal 2019 acquisitions of Pacproinc, Brava and Synesso and fiscal 2020 acquisitions of RAM and Deutsche. Excluding acquisitions, net sales decreased \$97.5 million, or 13.5%, from the prior year period. The impact of foreign exchange rates on foreign sales translated into U.S. Dollars for the three months period ended September 26, 2020 increased net sales by approximately \$4.6 million or 0.6%. Excluding the impact of foreign exchange and acquisitions, sales decreased 14.1% for the three months period ended September 26, 2020 as compared to the prior year period, including a net sales decrease of 27.4% at the Commercial Foodservice Equipment Group, a net sales increase of 22.4% at the Food Processing Equipment Group and a net sales increase of 11.4% at the Residential Kitchen Equipment Group.

- Net sales of the Commercial Foodservice Equipment Group decreased by \$129.8 million, or 25.9%, to \$371.2 million in the three months period ended September 26, 2020, as compared to \$501.0 million in the prior year period. Net sales from the acquisitions of Synesso, RAM, and Deutsche, which were acquired on November 27, 2019, January 13, 2020, and March 2, 2020, respectively, accounted for an increase of \$5.9 million during the three months period ended September 26, 2020. Excluding the impact of acquisitions, net sales of the Commercial Foodservice Equipment Group decreased \$135.7 million, or 27.1%, as compared to the prior year period. Excluding the impact of foreign exchange and acquisitions, net sales decreased \$137.3 million or 27.4% at the Commercial Foodservice Equipment Group. Domestically, which is considered to be the U.S. and Canada, the company realized a sales decrease of \$80.8 million, or 23.3%, to \$265.8 million, as compared to \$346.6 million in the prior year period. The decline in domestic sales reflects the impacts of COVID-19. This includes an increase of \$3.8 million from recent acquisitions. Excluding the acquisitions, the net decrease in domestic sales was \$84.6 million, or 24.4%. International sales decreased \$49.0 million, or 31.7%, to \$105.4 million, as compared to \$154.4 million in the prior year period. This includes an increase of \$2.1 million from the recent acquisitions and an increase of \$1.6 million related to the favorable impact of exchange rates. Excluding acquisitions and foreign exchange, the net sales decrease in international sales was \$52.7 million, or 34.1%. The decrease in international revenues reflects the outbreak of COVID-19.
- Net sales of the Food Processing Equipment Group increased by \$21.5 million, or 24.1%, to \$110.6 million in the three months period ended September 26, 2020, as compared to \$89.1 million in the prior year period. Excluding the impact of foreign exchange and the acquisition of Pacproinc, acquired July 16, 2019, net sales increased \$20.0 million, or 22.4% at the Food Processing Equipment Group. Domestically, the company realized a sales increase of \$24.9 million, or 43.5%, to \$82.1 million, as compared to \$57.2 million in the prior year period. The increase in domestic sales reflects growth across our product portfolio. Excluding the acquisition, the net increase in domestic sales was \$24.1 million, or 42.1%. International sales decreased \$3.4 million, or 10.7%, to \$28.5 million, as compared to \$31.9 million in the prior year period. Excluding the acquisition and foreign exchange, the net sales decrease in international sales was \$4.1 million, or 12.9%. The decrease in international revenues reflects declines in sales primarily due to the disruptive impact of COVID-19.
- Net sales of the Residential Kitchen Equipment Group increased by \$18.8 million, or 14.0%, to \$152.7 million in the three months period ended September 26, 2020, as compared to \$133.9 million in the prior year period. Excluding the impact of foreign exchange and the acquisition of Brava, acquired November 19, 2019, net sales increased \$15.2 million, or 11.4% at the Residential Kitchen Equipment Group. Domestically, the company realized a sales increase of \$10.4 million, or 12.0%, to \$97.3 million, as compared to \$86.9 million in the prior year period. The increase in domestic sales is primarily related to strong consumer demand for out premium appliance brands. Excluding the acquisition, the net increase in domestic sales was \$9.1 million, or 10.5%. International sales increased \$8.4 million, or 17.9%, to \$55.4 million, as compared to \$47.0 million in the prior year period. This includes a favorable impact of exchange rates of \$2.3 million. Excluding foreign exchange, the net sales increase in international sales was \$6.1 million, or 13.0%, primarily due to strong demand for our premium appliance brands.

GROSS PROFIT. Gross profit decreased to \$222.7 million in the three months period ended September 26, 2020 from \$270.0 million in the prior year period, primarily reflecting lower sales volumes related to COVID-19, lower margins at recent acquisitions, offset by the favorable impact of foreign exchange rates of \$1.6 million. The gross margin rate was 37.3% in the three months period ended September 28, 2019 as compared to 35.1% in the current year period.

- Gross profit at the Commercial Foodservice Equipment Group decreased by \$59.6 million, or 31.9%, to \$127.5 million in the three months period ended September 26, 2020, as compared to \$187.1 million in the prior year period. Gross profit from the acquisitions of Synesso, RAM, and Deutsche increased gross profit by \$1.9 million. Excluding acquisitions, gross profit decreased by \$61.5 million primarily related to lower sales volumes. The impact of foreign exchange rates increased gross profit by approximately \$0.6 million. The gross margin rate decreased to 34.3%, as compared to 37.3% in the prior year period. The gross margin rate, excluding acquisitions and the impact of foreign exchange, was 34.4%.
- Gross profit at the Food Processing Equipment Group increased by \$9.3 million, or 29.9%, to \$40.4 million in the three months period ended September 26, 2020, as compared to \$31.1 million in the prior year period. Excluding the acquisition, gross profit increased by \$9.1 million. The impact of foreign exchange rates increased gross profit by approximately \$0.4 million. The gross profit margin rate increased to 36.5%, as compared to 34.9% in the prior year period primarily related to higher sales volumes and product mix. The gross margin rate, excluding the acquisition and the impact of foreign exchange, was 36.5%.
- Gross profit at the Residential Kitchen Equipment Group increased by \$3.4 million, or 6.5%, to \$55.5 million in the three months period ended September 26, 2020, as compared to \$52.1 million in the prior year period. The impact of foreign exchange rates increased gross profit by approximately \$0.6 million. The gross margin rate decreased to 36.3%, as compared to 38.9% in the prior year period. The gross margin rate, excluding the acquisition and the impact of foreign exchange, was 36.6%.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Combined selling, general and administrative expenses decreased from \$144.5 million in the three months period ended September 28, 2019 to \$128.8 million in the three months period ended September 26, 2020. As a percentage of net sales, selling, general, and administrative expenses were 20.0% in the three months period ended September 28, 2019, as compared to 20.3% in the three months period ended September 26, 2020.

Selling, general and administrative expenses reflect increased costs of \$5.5 million associated with acquisitions, including \$0.9 million of intangible amortization expense. Selling, general and administrative expenses decreased \$6.8 million related to compensation costs and commissions and \$12.2 million due to controllable cost reductions within travel & entertainment, convention costs, professional fees and advertising. Foreign exchange rates had an unfavorable impact of \$1.0 million. The compensation decreases were partially offset by a \$3.3 million increase related to higher non-cash share-based compensation.

RESTRUCTURING EXPENSES. Restructuring expenses were \$4.2 million for the three months period ended September 28, 2019 and \$7.3 million for the three months period ended September 26, 2020. Restructuring expenses in the current period related primarily to headcount reductions and facility consolidations within the Commercial Foodservice Equipment Group. In the three months period ended September 28, 2019, restructuring expenses related primarily to headcount reductions and cost reduction initiatives related to facility consolidations within the Commercial Foodservice Equipment Group and Residential Kitchen Equipment Group.

NON-OPERATING EXPENSES. Interest and deferred financing amortization costs were \$18.4 million in the three months period ended September 26, 2020, as compared to \$20.8 million in the prior year period, reflecting the reduction in the average interest rates under the Credit Facility and benefit from the Convertible Notes, offset by higher non-cash interest from the Convertible Notes. Net periodic pension benefit (other than service costs) increased \$2.9 million to \$10.1 million in the three months period ended September 26, 2020 from \$7.2 million in the prior year period, related to the decrease in discount rate used to calculate the interest cost and higher expected returns on assets driven by higher asset values at the end of fiscal 2019. Other income was \$0.3 million in the three months period ended September 26, 2020, as compared to other expense of \$1.4 million in the prior year period and consists mainly of foreign exchange gains and losses.

INCOME TAXES. A tax provision of \$18.2 million, at an effective rate of 23.1%, was recorded during the three months period ended September 26, 2020, as compared to \$24.2 million at an effective rate of 22.8%, in the prior year period. The effective tax rates in 2020 and 2019 are higher than the federal tax rate of 21% primarily due to state taxes..

Nine Months Ended September 26, 2020 as compared to Nine Months Ended September 28, 2019

NET SALES. Net sales for the nine months period ended September 26, 2020 decreased by \$387.8 million or 17.9% to \$1,784.0 million as compared to \$2,171.8 million in the nine months period ended September 28, 2019. Net sales increased by \$61.8 million, or 2.8%, from the fiscal 2019 acquisitions of Cooking Solutions Group, Powerhouse, Ss Brewtech, Pacproinc, Brava and Synesso and fiscal 2020 acquisitions of RAM and Deutsche. Excluding acquisitions, net sales decreased \$449.6 million, or 20.7%, from the prior year period. The impact of foreign exchange rates on foreign sales translated into U.S. Dollars for the nine months period ended September 26, 2020 decreased net sales by approximately \$4.1 million or 0.2%. Excluding the impact of foreign exchange and acquisitions sales decreased 20.5% for nine months period ended September 26, 2020 as compared to the prior year period, including a net sales decrease of 29.2% at the Commercial Foodservice Equipment Group, a net sales increase of 8.7% at the Food Processing Equipment Group and a net sales decrease of 9.4% at the Residential Kitchen Equipment Group.

- Net sales of the Commercial Foodservice Equipment Group decreased by \$389.9 million, or 26.5%, to \$1,081.9 million in the nine months period ended September 26, 2020, as compared to \$1,471.8 million in the prior year period. Net sales from the acquisitions of Cooking Solutions Group, Powerhouse, Ss Brewtech, Synesso, RAM, and Deutsche, which were acquired on April 1, 2019, April 1, 2019, June 15, 2019, November 27, 2019, January 13, 2020, and March 2, 2020, respectively, accounted for an increase of \$44.2 million during the nine months period ended September 26, 2020. Excluding the impact of acquisitions, net sales of the Commercial Foodservice Equipment Group decreased \$434.1 million, or 29.5%, as compared to the prior year period. Excluding the impact of foreign exchange and acquisitions, net sales decreased \$430.3 million or 29.2% at the Commercial Foodservice Equipment Group. Domestically, the company realized a sales decrease of \$236.4 million, or 23.5%, to \$768.2 million, as compared to \$1,004.6 million in the prior year period. This includes an increase of \$36.3 million from recent acquisitions. Excluding acquisitions, the net decrease in domestic sales was \$272.7 million, or 27.1%. The decline in domestic sales reflects the impacts of COVID-19. International sales decreased \$153.5 million, or 32.9%, to \$313.7 million, as compared to \$467.2 million in the prior year period. This includes an increase of \$7.9 million from the recent acquisitions and a decrease of \$3.8 million related to the unfavorable impact of exchange rates. Excluding acquisitions and foreign exchange, the net sales decrease in international sales was \$157.6 million, or 33.7%. The decrease in international revenues reflects the impacts of COVID-19.
- Net sales of the Food Processing Equipment Group increased by \$37.0 million, or 13.2%, to \$316.5 million in the nine months period ended September 26, 2020, as compared to \$279.5 million in the prior year period. Excluding the impact of foreign exchange and the acquisition of Pacproinc, acquired July 16, 2019, net sales increased \$24.3 million or 8.7% at the Food Processing Equipment Group. Domestically, the company realized a sales increase of \$54.8 million, or 31.7%, to \$227.8 million, as compared to \$173.0 million in the prior year period. Excluding the acquisition, the net increase in domestic sales was \$42.1 million, or 24.3%. The increase in domestic sales reflects growth in protein equipment sales. International sales decreased \$17.8 million, or 16.7%, to \$88.7 million, as compared to \$106.5 million in the prior year period. Excluding the acquisition and foreign exchange, the net sales decrease in international sales was \$17.8 million, or 16.7%. The decrease in international revenues reflects declines in sales primarily due to the disruptive impact of COVID-19.
- Net sales of the Residential Kitchen Equipment Group decreased by \$34.9 million or 8.3%, to \$385.6 million in the nine months period ended September 26, 2020, as compared to \$420.5 million in the prior year period. Excluding the impact of foreign exchange and the acquisition of Brava, acquired November 19, 2019, net sales decreased \$39.5 million, or 9.4%, at the Residential Kitchen Equipment Group. Domestically, the company realized a sales decrease of \$6.6 million, or 2.4%, to \$264.1 million, as compared to \$270.7 million in the prior year period. Excluding the impact of the acquisition, the net decrease in domestic sales was \$10.6 million, or 3.9%. The decline in domestic sales reflects the impacts of COVID-19 through the first half of the year, partially offset by strong consumer demand in the three months period ended September 28, 2019. International sales decreased \$28.3 million, or 18.9%, to \$121.5 million, as compared to \$149.8 million in the prior year period. Excluding foreign exchange, the net sales decrease in international sales was \$28.9 million, or 19.3%. The decline of sales in the European market reflects the impacts of Brexit and the outbreak of COVID-19 partially offset by strong consumer demand in the three months period ended September 28, 2019.

GROSS PROFIT. Gross profit decreased to \$626.1 million in the nine months period ended September 26, 2020 from \$813.8 million in the prior year period, primarily related to lower sales volumes due to COVID-19 and the unfavorable impact of foreign exchange rates of \$0.7 million. The gross margin rate was 37.5% in the nine months period ended September 28, 2019 as compared to 35.1% in the current year period.

- Gross profit at the Commercial Foodservice Equipment Group decreased by \$176.0 million, or 31.8%, to \$377.6 million in the nine months period ended September 26, 2020, as compared to \$553.6 million in the prior year period. Gross profit from acquisitions accounted for \$10.9 million of the increase in gross profit during the period. Excluding the recent acquisitions, gross profit decreased by \$186.9 million on lower sales volumes. The impact of foreign exchange rates decreased gross profit by approximately \$0.6 million. The gross margin rate decreased to 34.9%, as compared to 37.6% in the prior year period. The gross margin rate, excluding acquisitions and the impact of foreign exchange, was 35.3%.
- Gross profit at the Food Processing Equipment Group increased by \$14.1 million, or 14.3%, to \$112.6 million in the nine months period ended September 26, 2020, as compared to \$98.5 million in the prior year period. Excluding the acquisition, gross profit increased by approximately \$9.8 million. The impact of foreign exchange rates decreased gross profit by approximately \$0.3 million. The gross profit margin rate increased to 35.6%, as compared to 35.2% in the prior year period. The gross margin rate, excluding the acquisition and the impact of foreign exchange, was 35.7%.
- Gross profit at the Residential Kitchen Equipment Group decreased by \$26.1 million, or 16.0%, to \$137.5 million in the nine months period ended September 26, 2020, as compared to \$163.6 million in the prior year period. The impact of foreign exchange rates increased gross profit by approximately \$0.2 million. The gross margin rate decreased to 35.7%, as compared to 38.9% in the prior year period, primarily related to lower sales volumes.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Combined selling, general and administrative expenses decreased from \$445.0 million in the nine months period ended September 28, 2019 to \$384.6 million in the nine months period ended September 26, 2020. As a percentage of net sales, selling, general, and administrative expenses were 20.5% in the nine months period ended September 28, 2019, as compared to 21.6% in the nine months period ended September 26, 2020.

Selling, general and administrative expenses reflect increased costs of \$21.1 million associated with acquisitions, including \$5.4 million of intangible amortization expense. Selling, general and administrative expenses decreased \$40.7 million related to compensation costs and commissions and \$32.3 million due to controllable cost reductions within professional fees, travel & entertainment, convention costs and advertising. Foreign exchange rates had a favorable impact of \$1.7 million. The compensation decreases were partially offset by a \$11.2 million increase related to higher non-cash share-based compensation. The prior year period expenses also included \$10.1 million related to the transition costs with respect to the former Chairman and Chief Executive Officer upon his retirement in February 2019.

RESTRUCTURING EXPENSES. Restructuring expenses increased \$3.5 million from \$6.8 million in the nine months period ended September 28, 2019 to \$10.3 million in the nine months period ended September 26, 2020. Restructuring expenses in the current period related primarily to headcount reductions and facility consolidations within the Commercial Foodservice Equipment Group. In the nine months period ended September 28, 2019, restructuring charges related primarily to headcount reductions and cost reduction initiatives related to facility consolidations at the Commercial Foodservice Equipment Group and Residential Kitchen Equipment Group.

NON-OPERATING EXPENSES. Interest and deferred financing amortization costs were \$55.9 million in the nine months period ended September 26, 2020, as compared to \$63.3 million in the prior year period, reflecting the reduction in the average interest rates under the Credit Facility and benefit from the Convertible Notes, offset by higher non-cash interest from the Convertible Notes. Net periodic pension benefit (other than service costs) increased \$7.8 million to \$30.0 million in the nine months period ended September 26, 2020 from \$22.2 million in the prior year period, related to the decrease in discount rate used to calculate the interest cost and higher expected returns on assets driven by higher asset values at the end of fiscal 2019. Other expense was \$3.4 million in the nine months period ended September 26, 2020, as compared to other income of \$0.5 million in the prior year period and consists mainly of foreign exchange gains and losses.

INCOME TAXES. A tax provision of \$46.5 million, at an effective rate of 23.0%, was recorded during the nine months period ended September 26, 2020, as compared to \$78.2 million at an effective rate of 24.3%, in the prior year period. The effective rates in 2020 and 2019 are higher than the federal tax rate of 21% primarily due to state taxes.

Financial Condition and Liquidity

During the nine months ended September 26, 2020, cash and cash equivalents increased by \$125.8 million to \$220.3 million from \$94.5 million at December 28, 2019. Borrowings decreased from \$1.9 billion to \$1.8 billion at December 28, 2019 and September 26, 2020, respectively.

OPERATING ACTIVITIES. Net cash provided by operating activities was \$316.2 million for the nine months ended September 26, 2020, compared to \$229.7 million for the nine months ended September 28, 2019.

During nine months period ended September 26, 2020, net cash provided by changes in assets and liabilities amounted to \$80.9 million. This resulted from payments and collections largely attributable to reduction in sales volumes at the Commercial Foodservice Equipment Group and Residential Kitchen Equipment Group, as well as decreases in inventory levels. Changes also included a \$19.9 million decrease in accrued expenses and other non-current liabilities including impacts from the timing of payments made for various customer programs and compensation programs.

INVESTING ACTIVITIES. During the nine months ended September 26, 2020, net cash used for investing activities amounted to \$53.5 million. This included \$33.7 million primarily for the 2020 acquisitions of RAM, Deutsche. Additionally, \$29.8 million was expended, primarily associated with additions and upgrades of production equipment, manufacturing facilities and residential and commercial showrooms, and was offset by \$9.4 million proceeds on the sale of properties following facility consolidations actions.

FINANCING ACTIVITIES. Net cash flows used by financing activities were \$134.8 million during the nine months ended September 26, 2020. On January 31, 2020, the company entered into an amended and restated five-year, \$3.5 billion multi-currency senior secured credit agreement (the "Credit Facility"). On August 21, 2020, the company issued \$747.5 million aggregate principal amount of 1.00% the Convertible Senior Notes due 2025 (the "Notes"), and incurred \$17.6 million of issuance costs. The company then entered into privately negotiated capped call transactions (the "Capped Call Transactions") in an aggregate amount of \$104.7 million. A portion of the net proceeds from the Notes offering was used to prepay \$400.0 million aggregate principal amount of its term loan obligations and to execute an amendment to the Credit Facility. The company incurred approximately \$11.0 million of debt issuance costs, in aggregate, for amendments to the Credit Facility.

In addition to the term loan prepayment, the company's borrowing activities during the nine months ended September 26, 2020 included \$270.2 million of net repayments under its Credit Facility, as a result of utilization of net proceeds from the Convertible Notes transactions, as well as repaying borrowing made during the first half of the year.

Additionally, the company repurchased \$77.2 million of Middleby common shares during the nine months ended September 26, 2020. This was comprised of \$7.5 million to repurchase 108,473 shares of Middleby common stock that were surrendered to the company for withholding taxes related to restricted stock vestings and \$69.7 million used to repurchase 896,965 shares of its common stock under a repurchase program.

At September 26, 2020, the company was in compliance with all covenants pursuant to its borrowing agreements. The company has run various scenarios to estimate the impact of the COVID-19 pandemic and continues to believe that its future cash generated from operations, together with its capacity under its Credit Facility and its cash on hand, will provide adequate resources to meet its working capital needs and cash requirements and maintain compliance with financial covenants in its Credit Facility for at least the next 12 months.

Recently Issued Accounting Standards

See Part I, Item 1, Notes to Condensed Consolidated Financial Statements, Note 4 - Recent Issued Accounting Standards, of this Quarterly Report on Form 10-Q.

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 the company's consolidated financial statements. There have been no changes in the company's critical accounting policies, which include revenue recognition, inventories, goodwill and other intangibles, pensions benefits, and income taxes, as discussed in the company's Annual Report on Form 10-K for the year ended December 28, 2019 (the "2019 Annual Report on Form 10-K") other than those described below.

During the nine months period ended September 26, 2020, the company adopted ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350)". The amendments simplify the subsequent measurement of goodwill, by removing the second step of the goodwill impairment test. The company's qualitative assessment of goodwill impairment remains consistent; however, in the case of an impairment, the company will apply a one-step quantitative test and record the amount of goodwill impairment as the excess of a reporting unit's carrying amount over its fair value.

During the nine months period ended September 26, 2020, the company completed the issuance of convertible debt with debt and equity components. The company evaluated the different components and features of the hybrid instrument and determined whether certain elements were embedded derivative instruments which require bifurcation. Components of convertible debt instruments that upon conversion may be settled fully in cash or partly in cash based on a net-share settlement basis are accounted for separately as long-term debt and equity when the conversion feature of the convertible bonds constitute an embedded equity instrument. When an equity instrument is identified, proceeds from issuance are allocated between debt and equity by measuring first the liability component and then determining the equity component as a residual amount. The liability component is measured as the fair value of a similar nonconvertible debt, which results in the recognition of a debt discount. In subsequent periods, the company will amortize the debt discount to interest expense, net within the Condensed Consolidated Statements of Comprehensive Income, using the effective interest method based on the expected maturity of the debt. The equity component is reported in additional paid-in capital within the Condensed Consolidated Statement of Changes in Stockholders' Equity and is not remeasured as long as it continues to meet the conditions for equity classification.

The company allocated transaction costs related to the issuance of convertible debt using the same proportions as the proceeds from the convertible debt. Transaction costs attributable to the liability component are recorded as a direct deduction from the related debt liability in the Condensed Consolidated Balance Sheets and are amortized to interest expense, net within the Condensed Consolidated Statements of Comprehensive Income over the term of the convertible debt using the effective interest rate method. Transaction costs attributable to the equity component are netted within additional paid-in capital within the Condensed Consolidated Statement of Stockholders' Equity.

For additional information regarding our convertible debt, see Note 12, Financing Arrangements, in the Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

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 coinciding with the end of the company's Fiscal Third Quarter

Variable Rate
Debt

2021	\$	23,152
2022		19,132
2023		18,838
2024		18,832
2025 and thereafter		1,752,171
	\$	<u>1,832,125</u>

The company is exposed to interest rate risk on its floating-rate debt. 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 26, 2020, the fair value of these instruments was a liability of \$57.8 million. The change in fair value of these swap agreements in the first nine months of 2020 was a loss of \$25.2 million, net of taxes. The potential net loss on fair value for such instruments from a hypothetical 10% adverse change in quoted interest rates would not have a material impact on the company's financial position, results of operations and cash flows.

In August 2020, the company issued \$747.5 million aggregate principal amount of Convertible Notes in a private offering pursuant to the Indenture. The company does not have economic interest rate exposure as the Convertible Notes have a fixed annual rate of 1.00%. The fair value of the convertible senior notes is subject to interest rate risk, market risk and other factors due to its conversion feature. The fair value of the convertible senior notes are also affected by the price and volatility of the company's common stock and will generally increase or decrease as the market price of our common stock changes. The interest and market value changes affect the fair value of the convertible senior notes but do not impact the company's financial position, cash flows or results of operations due to the fixed nature of the debt obligation. Additionally, the company carries the convertible senior notes at face value, less any unamortized discount on the balance sheet and presents the fair value for disclosure purposes only.

Foreign Exchange Derivative Financial Instruments

The company uses foreign currency forward, foreign exchange swaps and option purchase and sales contracts 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 potential net loss on fair value for such instruments from a hypothetical 10% adverse change in quoted foreign exchange rates would not have a material impact on the company's financial position, results of operations and cash flows. The fair value of the forward and option contracts was a gain of \$0.2 million at the end of the third quarter of 2020.

The company accounts for its derivative financial instruments in accordance with ASC 815, "Derivatives and Hedging". In accordance with ASC 815, these instruments are recognized on the balance sheet as either an asset or a liability measured at fair value. Changes in the market value and the related foreign exchange gains and losses are recorded in the statement of earnings.

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 26, 2020, 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 26, 2020, 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 26, 2020, except as follows:

Item 1A. Risk Factors

The risk factors disclosed in the 2019 Annual Report on Form 10-K should be considered together with information included in this Quarterly Report on Form 10-Q for the quarter ended September 26, 2020 and should not be limited to those referenced. The below information details changes that have occurred to the previously disclosed risk factors in the 2019 Annual Report on Form 10-K. Except for such additional information, the company believes there have been no material changes from the risk factors previously disclosed in the 2019 Annual Report on Form 10-K.

The COVID-19 pandemic has, and likely will continue to, adversely impact and pose risks to the company, the nature and extent of which are highly uncertain and unpredictable.

The company is monitoring the global outbreak of the COVID-19 pandemic and taking steps to mitigate the risks posed by its spread, including working with its customers, employees, suppliers and other stakeholders. The pandemic is adversely affecting, and is expected to continue to adversely affect, the company's financial results, condition and outlook. Certain elements of the company's business (including its supply chain, distribution systems, production levels and research and development activities) and operations have been negatively impacted due to significant portions of the company's workforce being unable to work effectively due to quarantines, government orders and guidance, facility closures, illness, travel restrictions, implementation of precautionary measures and other restrictions. The company also has experienced, and expects to continue to experience, unpredictable volatility in demand given disruptions in global health, economic and market conditions, consumer behavior and global restaurant operations. If the pandemic continues and conditions worsen, the company expects to experience additional adverse impacts on operational and commercial activities, costs, customer orders and purchases and collections of accounts receivable, which may be material, and the extent of these exposures remains uncertain even if conditions begin to improve. The pandemic has also increased the risk related to the company's ability to ensure business continuity during a potential disruption, including increased cybersecurity attacks related to the work-from-home environment. Furthermore, the pandemic has impacted and may further impact the broader economies of affected countries, including negatively impacting economic growth, the proper functioning of financial and capital markets, foreign currency exchange rates and interest rates, all of which could continue to negatively impact the company. Due to the speed with which the situation is developing, the global breadth of the pandemic's spread and the range of governmental and community reactions, there is uncertainty around the pandemic's duration, ultimate impact and the timing of recovery. Therefore, the pandemic could lead to an extended disruption of economic activity and the impact on the company's consolidated results of operations, financial position and cash flows could be material. In addition, the continuation or a resurgence of the pandemic could exacerbate the other risk factors identified in the "Risk Factors" section of the 2019 Annual Report on Form 10K.

The company's level of indebtedness could adversely affect its business, results of operations and growth strategy.

In August 2020, the company issued \$747.5 million aggregate principal amount of 1.00% Convertible Senior Notes due 2025 (the "Convertible Notes"), which bear interest semi-annually in arrears and mature on September 1, 2025 unless they are redeemed, repurchased or converted prior to such date in accordance with their terms. Upon conversion, the company can elect to pay or deliver, cash, shares of common stock or a combination of cash and shares of common stock, in respect of the remainder, if any, of the company's conversion obligation in excess of the aggregate principal amount of the Convertible Notes being converted. Under certain circumstances, the holders of the Convertible Notes may require the company to repay all or a portion of the principal and interest outstanding under the Convertible Notes in cash prior to the maturity date, which could have an adverse effect on our financial results.

The conditional conversion feature of the Convertible Notes, if triggered, may adversely affect our financial condition and operating results.

In the event the conditional conversion feature of the Convertible Notes is triggered, holders will be entitled to convert their option at any time during specified periods. If one or more holders elect to convert their Convertible Notes, unless the company elects to satisfy the conversion obligation by delivering solely shares of our common stock (other than paying cash in lieu of delivering any fractional share), the company would be required to settle a portion or all of the conversion obligation through the payment of cash, which could adversely affect the company's liquidity. To the extent the company satisfies the conversion obligation by delivering shares of common stock, the company would be required to deliver a significant number of shares, which would cause dilution to our existing stockholders. In addition, even if holders do not elect to convert their Convertible Notes in such circumstances, the company could be required under applicable accounting rules to reclassify all or a portion of the outstanding principal of the applicable series of Convertible Notes as a current rather than long-term liability, which would result in a material reduction in net working capital.

The capped call transactions expose the company to counterparty risk and may affect the value of the company's common stock.

In connection with the issuance of the Convertible Notes, the company entered into capped call transactions with certain financial institutions, referred to as the capped call counterparties. The capped call transactions are expected generally to reduce the potential dilution upon conversion of the Convertible Notes and/or offset any cash payments the company is required to make in excess of the principal amount of the Convertible Notes, as the case may be, with such reduction and/or offset subject to a cap. From time to time, the capped call counterparties or their respective affiliates may modify their hedge positions by entering into or unwinding various derivative transactions with respect to the company's common stock and/or purchasing or selling the company's common stock in secondary market transactions prior to the maturity of the Convertible Notes. This activity could cause a decrease in the market price of the company's common stock.

In addition, the capped call counterparties are financial institutions, and the company is subject to the risk that one or more of the capped call counterparties may default or otherwise fail to perform, or may exercise certain rights to terminate, their obligations under the capped call transactions. The company's exposure to the credit risk of the option counterparties is not secured by any collateral. If a capped call counterparty becomes subject to insolvency proceedings, the company will become an unsecured creditor in those proceedings with a claim equal to the exposure at the time under such transaction. The company's exposure will depend on many factors but, generally, the exposure will increase if the market price or the volatility of the company's common stock increases. In addition, upon a default or other failure to perform, or a termination of obligations, by a capped call counterparty, the company may suffer more dilution than currently anticipated with respect to the company's common stock. The company can provide no assurances as to the financial stability or viability of the capped call counterparties.

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

a) Unregistered Sales of Equity Securities in connection with Investments

On June 29, 2020, in connection with the company's minority investment in Bluezone Products, Inc. ("Bluezone"), the company issued 46,365 unregistered shares of the company's common stock to a certain stockholder of Bluezone ("Bluezone Stockholder") in exchange for 36,764 shares of series A preferred stock of Bluezone. The shares of company common stock were issued in reliance on the exemption from registration under Section 4(a)(2) of the Securities Act of 1933, as amended ("Securities Act"). The company relied on such exemption based in part upon representations made by the Bluezone Stockholder, including its status as an accredited investor, as such term is defined in Rule 501 of the Securities Act.

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 (1)
June 28, 2020 to July 25, 2020	—	\$ —	—	1,476,835
July 26, 2020 to August 22, 2020	—	—	—	1,476,835
August 23, 2020 to September 26, 2020	—	—	—	1,476,835
Quarter ended September 26, 2020	—	\$ —	—	1,476,835

(1) On November 7, 2017, the company's Board of Directors resolved to terminate the company's existing share repurchase program, effective as of such date, which was originally adopted in 1998, and approved a new stock repurchase program. This program authorizes the company to repurchase in the aggregate up to 2,500,000 shares of its outstanding common stock. As of September 26, 2020, the total number of shares authorized for repurchase under the program is 2,500,000. As of September 26, 2020, 1,023,165 shares had been purchased under the 2017 stock repurchase program.

In the consolidated financial statements, the company also treats shares withheld for tax purposes on behalf of employees in connection with the vesting of restricted share grants as common stock repurchases because they reduce the number of shares that would have been issued upon vesting. These withheld shares are not considered common stock repurchases under the authorized common stock repurchase plan and accordingly are not included in the common stock repurchase totals in the preceding table.

Item 6. Exhibits

Exhibits:

- Exhibit 4.1 – [Indenture \(including form of Global Note\) with respect to The Middleby Corporation's 1.00% Convertible Senior Notes due 2025, dated as of August 21, 2020, between The Middleby Corporation and U.S. Bank National Association, as trustee, incorporated by reference to the company's Form 8-K Exhibit 4.1 filed on August 21, 2020.](#)
- Exhibit 4.2 – [Form of Global Note for the 1.00% Convertible Senior Notes due 2025 incorporated by reference to the company's Form 8-K Exhibit 4.1 filed on August 21, 2020.](#)
- Exhibit 10.1 – [First Amendment to Seventh Amended and Restated Credit Agreement, dated as of August 17, 2020, among Middleby Marshall Inc., a subsidiary of the Company, Bank of America, N.A., as administrative agent, and certain lenders named therein incorporated by reference to the company's Form 8-K Exhibit 10.1 filed on August 21, 2020.](#)
- Exhibit 10.2 – [Form of Capped Call Confirmation incorporated by reference to the company's Form 8-K Exhibit 10.2 filed on August 21, 2020.](#)
- 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 26, 2020, filed on November 5, 2020, formatted in Inline Extensive Business Reporting Language (iXBRL); (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.
- Exhibit 104 – Cover Page Interactive Data File (formatted as Inline Extensive Business Reporting Language (iXBRL) and contained in Exhibit 101).

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 5, 2020

By: /s/ Bryan E. Mittelman
Bryan E. Mittelman
Chief Financial Officer

CERTIFICATIONS

I, Timothy J. FitzGerald, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Middleby Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 5, 2020

/s/ Timothy J. FitzGerald

Timothy J. FitzGerald

Chief Executive Officer of The Middleby Corporation

CERTIFICATIONS

I, Bryan E. Mittelman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Middleby Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: November 5, 2020

/s/ Bryan E. Mittelman

Bryan E. Mittelman

Chief Financial Officer of The Middleby Corporation

**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)**

This certification is being furnished pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

I, Timothy J. FitzGerald, Chief Executive Officer (principal executive officer) of The Middleby Corporation (the "Registrant"), certify, to the best of my knowledge, based upon a review of the Quarterly Report on Form 10-Q for the period ended September 26, 2020 of the Registrant (the "Report"), that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
- (2) The information contained in the Report fairly presents, in all material aspects, the financial condition and results of operations of the Registrant.

Date: November 5, 2020

/s/ Timothy J. FitzGerald

Timothy J. FitzGerald

**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)**

This certification is being furnished pursuant to Rule 13a-14(b) under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

I, Bryan E. Mittelman, Chief Financial Officer (principal financial officer) of The Middleby Corporation (the "Registrant"), certify, to the best of my knowledge, based upon a review of the Quarterly Report on Form 10-Q for the period ended September 26, 2020 of the Registrant (the "Report"), that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and
- (2) The information contained in the Report fairly presents, in all material aspects, the financial condition and results of operations of the Registrant.

Date: November 5, 2020

/s/ Bryan E. Mittelman

Bryan E. Mittelman