

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 28, 2019

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 o

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 o

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 and emerging growth company" in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer
Smaller reporting company Emerging growth company

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. o

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 November 4, 2019, there were 56,140,851 shares of the registrant's common stock outstanding.

THE MIDDLEBY CORPORATION
QUARTER ENDED SEPTEMBER 28, 2019

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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)

<u>ASSETS</u>	Sep 28, 2019	Dec 29, 2018
Current assets:		
Cash and cash equivalents	\$ 87,181	\$ 71,701
Accounts receivable, net of reserve for doubtful accounts of \$16,567 and \$13,608	417,622	398,660
Inventories, net	614,102	521,810
Prepaid expenses and other	63,344	50,940
Prepaid taxes	18,198	18,483
Total current assets	1,200,447	1,061,594
Property, plant and equipment, net of accumulated depreciation of \$188,979 and \$167,737	342,971	314,569
Goodwill	1,809,359	1,743,175
Other intangibles, net of amortization of \$317,458 and \$268,414	1,440,421	1,361,024
Long-term deferred tax assets	26,541	32,188
Other assets	108,789	37,231
Total assets	\$ 4,928,528	\$ 4,549,781
<u>LIABILITIES AND STOCKHOLDERS' EQUITY</u>		
Current liabilities:		
Current maturities of long-term debt	\$ 3,331	\$ 3,207
Accounts payable	181,171	188,299
Accrued expenses	400,742	367,446
Total current liabilities	585,244	558,952
Long-term debt	1,955,900	1,888,898
Long-term deferred tax liability	124,071	113,896
Accrued pension benefits	226,074	253,119
Other non-current liabilities	181,208	69,713
Stockholders' equity:		
Preferred stock, \$0.01 par value; nonvoting; 2,000,000 shares authorized; none issued	—	—
Common stock, \$0.01 par value; 63,080,940 and 62,592,707 shares issued in 2019 and 2018, respectively	145	145
Paid-in capital	382,526	377,419
Treasury stock, at cost; 6,940,089 and 6,889,241 shares in 2019 and 2018	(451,262)	(445,118)
Retained earnings	2,252,465	2,009,233
Accumulated other comprehensive loss	(327,843)	(276,476)
Total stockholders' equity	1,856,031	1,665,203
Total liabilities and stockholders' equity	\$ 4,928,528	\$ 4,549,781

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 28, 2019	Sep 29, 2018	Sep 28, 2019	Sep 29, 2018
Net sales	\$ 724,014	\$ 713,331	\$ 2,171,820	\$ 1,966,259
Cost of sales	453,986	452,171	1,358,001	1,242,707
Gross profit	270,028	261,160	813,819	723,552
Selling, general and administrative expenses	144,460	141,372	445,000	399,328
Restructuring expenses	4,223	12,111	6,806	18,245
Income from operations	121,345	107,677	362,013	305,979
Interest expense and deferred financing amortization, net	20,846	19,143	63,334	38,370
Net periodic pension benefit (other than service costs)	(7,175)	(9,225)	(22,233)	(28,046)
Other expense (income), net	1,444	(260)	(489)	371
Earnings before income taxes	106,230	98,019	321,401	295,284
Provision for income taxes	24,210	25,114	78,158	72,971
Net earnings	\$ 82,020	\$ 72,905	\$ 243,243	\$ 222,313
Net earnings per share:				
Basic	\$ 1.47	\$ 1.31	\$ 4.37	\$ 4.00
Diluted	\$ 1.47	\$ 1.31	\$ 4.37	\$ 4.00
Weighted average number of shares				
Basic	55,663	55,577	55,641	55,575
Dilutive common stock equivalents ¹	—	—	—	—
Diluted	55,663	55,577	55,641	55,575
Comprehensive income	\$ 55,915	\$ 69,027	\$ 191,876	\$ 212,754

¹There were no anti-dilutive equity awards excluded from common stock equivalents for any period presented.

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
Stock issuance	—	—	—	—	—	—
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 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 30, 2018	\$ 145	\$ 376,740	\$ (445,118)	\$ 1,841,489	\$ (272,100)	\$ 1,501,156
Net earnings	—	—	—	72,905	—	72,905
Currency translation adjustments	—	—	—	—	(9,718)	(9,718)
Change in unrecognized pension benefit costs, net of tax of \$322	—	—	—	—	1,674	1,674
Unrealized gain on interest rate swap, net of tax of \$1,431	—	—	—	—	4,166	4,166
Stock compensation	—	3,450	—	—	—	3,450
Balance, September 29, 2018	\$ 145	\$ 380,190	\$ (445,118)	\$ 1,914,394	\$ (275,978)	\$ 1,573,633
Balance, December 30, 2017	\$ 145	\$ 374,922	\$ (445,118)	\$ 1,697,618	\$ (266,419)	\$ 1,361,148
Net earnings	—	—	—	222,313	—	222,313
Adoption of ASU 2018-02 (1)	—	—	—	(1,132)	1,132	—
Adoption of ASU 2014-09 (2)	—	—	—	(4,405)	—	(4,405)
Currency translation adjustments	—	—	—	—	(29,879)	(29,879)
Change in unrecognized pension benefit costs, net of tax of \$1,432	—	—	—	—	7,041	7,041
Unrealized gain on interest rate swap, net of tax of \$4,172	—	—	—	—	12,147	12,147
Stock compensation	—	5,268	—	—	—	5,268
Balance, September 29, 2018	\$ 145	\$ 380,190	\$ (445,118)	\$ 1,914,394	\$ (275,978)	\$ 1,573,633

(1) As of December 31, 2017, the company adopted ASU No. 2018-02, *Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income*. The adoption of this guidance resulted in the reclassification of \$1.1 million, including \$1.6 million related to interest rate swap and \$(0.5) million related to pensions, of stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 from accumulated other comprehensive income to retained earnings.

(2) As of December 31, 2017, the company adopted ASU No. 2014-09, *Revenue from Contracts with Customers (ASC 606)* using the modified retrospective method to contracts that were not completed as of December 30, 2017. The adoption of this guidance resulted in the recognition of \$4.4 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 28, 2019	Sep 29, 2018
Cash flows from operating activities--		
Net earnings	\$ 243,243	\$ 222,313
Adjustments to reconcile net earnings to net cash provided by operating activities--		
Depreciation and amortization	77,272	66,455
Operating lease asset amortization	17,246	—
Non-cash share-based compensation	3,257	5,268
Deferred income taxes	9,931	13,312
Impairment of property, plant and equipment	—	783
Non-cash restructuring	—	5,179
Changes in assets and liabilities, net of acquisitions		
Accounts receivable, net	(1,116)	(38,936)
Inventories, net	(65,864)	(25,604)
Prepaid expenses and other assets	4,369	10,400
Accounts payable	(17,659)	24,625
Accrued expenses and other liabilities	(40,935)	(31,748)
Net cash provided by operating activities	229,744	252,047
Cash flows from investing activities--		
Additions to property, plant and equipment	(33,819)	(32,552)
Purchase of tradename	—	(5,399)
Acquisitions, net of cash acquired	(238,974)	(1,147,738)
Net cash used in investing activities	(272,793)	(1,185,689)
Cash flows from financing activities--		
Proceeds under Credit Facility	444,451	1,520,225
Repayments under Credit Facility	(375,188)	(588,911)
Net proceeds (repayments) under international credit facilities	319	(6,997)
Net repayments under other debt arrangement	(175)	(3)
Payments of deferred purchase price	(1,648)	(692)
Repurchase of treasury stock	(6,144)	—
Net cash provided by financing activities	61,615	923,622
Effect of exchange rates on cash and cash equivalents	(3,086)	(3,046)
Changes in cash and cash equivalents--		
Net increase (decrease) in cash and cash equivalents	15,480	(13,066)
Cash and cash equivalents at beginning of year	71,701	89,654
Cash and cash equivalents at end of period	\$ 87,181	\$ 76,588

See accompanying notes

THE MIDDLEBY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 28, 2019
(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 2018 Form 10-K. The company's interim results are not necessarily indicative of future full year results for the fiscal year 2019.

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 28, 2019 and December 29, 2018, the results of operations for the three and nine months ended September 28, 2019 and September 29, 2018, cash flows for the nine months ended September 28, 2019 and September 29, 2018 and statement of stockholders' equity for the three and nine months ended September 28, 2019 and September 29, 2018.

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 \$2.0 million and \$3.5 million for the three months period ended September 28, 2019 and September 29, 2018, respectively. Non-cash share-based compensation expense was \$3.3 million and \$5.3 million for the nine months period ended September 28, 2019 and September 29, 2018, respectively.

C) Income Taxes

A tax provision of \$78.2 million, at an effective rate of 24.3%, was recorded during the nine months period ended September 28, 2019, as compared to a \$73.0 million tax provision at a 24.7% in the prior year period. The effective rates in 2019 and 2018 are higher than the federal tax rate of 21% primarily due to state taxes and foreign tax rate differentials.

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 on our own assumptions.

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

	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Total
As of September 28, 2019				
Financial Assets:				
Interest rate swaps	\$ —	\$ 1,384	\$ —	\$ 1,384
Financial Liabilities:				
Interest rate swaps	\$ —	\$ 31,065	\$ —	\$ 31,065
Contingent consideration	\$ —	\$ —	\$ 7,340	\$ 7,340
As of December 29, 2018				
Financial Assets:				
Interest rate swaps	\$ —	\$ 13,487	\$ —	\$ 13,487
Financial Liabilities:				
Interest rate swaps	\$ —	\$ 4,125	\$ —	\$ 4,125
Contingent consideration	\$ —	\$ —	\$ 3,566	\$ 3,566

The contingent consideration as of September 28, 2019 relates to the earnout provision recorded in conjunction with the acquisitions of Jospier S.A. ("Jospier") and Ss Brewtech. The contingent consideration as of December 29, 2018 relates to the earnout provision recorded in conjunction with the acquisition of Jospier.

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 \$61.7 million and \$35.9 million for the nine months ended September 28, 2019 and September 29, 2018, respectively. Cash payments totaling \$65.7 million and \$61.3 million were made for income taxes for the nine months ended September 28, 2019 and September 29, 2018, respectively.

2) Acquisitions and Purchase Accounting

The company operates in a highly fragmented industry and has completed numerous acquisitions over the past several years as a component of its growth strategy. The company has acquired industry leading brands and technologies to position itself as a leader in the commercial foodservice equipment, 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. For the company's acquisitions, goodwill is calculated as the difference between the acquisition fair value of the consideration transferred and the fair value of the net assets acquired, and represents future economic benefits, including synergies, and assembled workforce, that are expected to be achieved as a result of the acquisition. 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 more significant acquisitions in 2019 and 2018. The company also made smaller acquisitions not listed below which are individually and collectively immaterial.

Hinds-Bock

On February 16, 2018, the company completed its acquisition of all of the capital stock of Hinds-Bock Corporation ("Hinds-Bock"), a leading manufacturer of solutions for filling and depositing bakery and food product located in Bothell, Washington, for a purchase price of \$25.4 million, net of cash acquired. During the third quarter of 2018, the company finalized the working capital provision provided by the purchase agreement resulting in a refund from the seller of \$0.4 million.

The final allocation of consideration paid for the Hinds-Bock acquisition is summarized as follows (in thousands):

	(as initially reported) February 16, 2018	Measurement Period Adjustments	(as adjusted) February 16, 2018
Cash	\$ 5	\$ —	\$ 5
Current assets	5,301	(3)	5,298
Property, plant and equipment	3,557	—	3,557
Goodwill	12,686	(1,166)	11,520
Other intangibles	8,081	1,119	9,200
Long term deferred tax asset	—	115	115
Current liabilities	(3,800)	(465)	(4,265)
Net assets acquired and liabilities assumed	\$ 25,830	\$ (400)	\$ 25,430

The goodwill and \$4.9 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350 "Intangibles - Goodwill and Other". Other intangibles also include \$3.7 million allocated to customer relationships and \$0.6 million allocated to backlog, which are being amortized over periods of 6 years and 3 months, respectively. Goodwill and other intangibles of Hinds-Bock are allocated to the Food Processing Equipment Group for segment reporting purposes. These assets are expected to be deductible for tax purposes.

Ve.Ma.C

On April 3, 2018, the company completed its acquisition of all of the capital stock of Ve.Ma.C S.r.l. ("Ve.Ma.C"), a leading designer and manufacturer of handling, automation and robotics solutions for protein food processing lines located in Castelnuovo Rangone, Italy, for a purchase price of approximately \$10.5 million, net of cash acquired. During the third quarter of 2018, the company finalized the working capital provision provided by the purchase agreement, resulting in no additional payment by either party.

The final allocation of consideration paid for the Ve.Ma.C acquisition is summarized as follows (in thousands):

	(as initially reported) April 3, 2018	Measurement Period Adjustments	(as adjusted) April 3, 2018
Cash	\$ 1,833	\$ —	\$ 1,833
Current assets	10,722	—	10,722
Property, plant and equipment	389	—	389
Goodwill	7,278	(2,506)	4,772
Other intangibles	2,584	3,776	6,360
Other assets	12	—	12
Current portion of long-term debt	(1,901)	—	(1,901)
Current liabilities	(8,076)	(216)	(8,292)
Long term deferred tax liability	(340)	(1,054)	(1,394)
Other non-current liabilities	(212)	—	(212)
Net assets acquired and liabilities assumed	\$ 12,289	\$ —	\$ 12,289

The long term deferred tax liability amounted to \$1.4 million. The net liability is comprised of \$1.8 million of deferred tax liability related to the difference between the book and tax basis of identifiable intangible assets and \$0.4 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 \$2.1 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also include \$2.6 million allocated to customer relationships and \$1.6 million allocated to backlog, which are being amortized over periods of 6 years and up to 1 year, respectively. Goodwill and other intangibles of Ve.Ma.C are allocated to the Food Processing Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

Firex

On April 27, 2018, the company completed its acquisition of all of the capital stock of Firex S.r.l. ("Firex"), a leading manufacturer of steam cooking equipment for the commercial foodservice industry located in Sedico, Italy, for a purchase price of approximately \$53.7 million, net of cash acquired. During the third quarter of 2018, the company finalized the working capital provision provided for by the purchase agreement resulting in a refund from the seller of \$0.3 million.

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

	(as initially reported) April 27, 2018	Measurement Period Adjustments	(as adjusted) April 27, 2018
Cash	\$ 10,652	\$ (37)	\$ 10,615
Current assets	7,656	39	7,695
Property, plant and equipment	2,447	—	2,447
Goodwill	36,706	(1,424)	35,282
Other intangibles	19,806	2,294	22,100
Current portion of long-term debt	(1,210)	—	(1,210)
Current liabilities	(4,099)	(471)	(4,570)
Long term deferred tax liability	(4,995)	(652)	(5,647)
Long-term debt	(1,069)	—	(1,069)
Other non-current liabilities	(1,318)	—	(1,318)
Net assets acquired and liabilities assumed	<u>\$ 64,576</u>	<u>\$ (251)</u>	<u>\$ 64,325</u>

The long term deferred tax liability amounted to \$5.6 million. The net liability is comprised of \$6.1 million of deferred tax liability related to the difference between the book and tax basis of identifiable intangible assets and \$0.5 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 \$10.2 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also include \$11.3 million allocated to customer relationships and \$0.6 million allocated to backlog, which are being amortized over periods of 7 years and 3 months, respectively. Goodwill and other intangibles of Firex are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

Josper

On May 10, 2018, the company completed its acquisition of all of the issued share capital of Josper S.A. ("Josper"), a leading manufacturer of charcoal grill and oven cooking equipment for commercial foodservice and residential applications located in Pineda de Mar, Spain, for a purchase price of approximately \$39.3 million, net of cash acquired. During the fourth quarter of 2018, the company finalized the working capital provision provided for by the purchase agreement resulting in a refund from the seller of \$0.2 million.

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

	(as initially reported) May 10, 2018	Measurement Period Adjustments	(as adjusted) May 10, 2018
Cash	\$ 3,308	\$ —	\$ 3,308
Current assets	6,579	13	6,592
Property, plant and equipment	4,739	—	4,739
Goodwill	27,140	(3,345)	23,795
Other intangibles	13,136	4,754	17,890
Other assets	2	—	2
Current portion of long-term debt	(217)	—	(217)
Current liabilities	(5,146)	(89)	(5,235)
Long-term debt	(1,608)	—	(1,608)
Long term deferred tax liability	(2,934)	(1,579)	(4,513)
Other non-current liabilities	(2,169)	—	(2,169)
Consideration paid at closing	<u>\$ 42,830</u>	<u>\$ (246)</u>	<u>\$ 42,584</u>
Contingent consideration	<u>3,454</u>	<u>—</u>	<u>3,454</u>
Net assets acquired and liabilities assumed	<u>\$ 46,284</u>	<u>\$ (246)</u>	<u>\$ 46,038</u>

The long term deferred tax liability amounted to \$4.5 million. The net liability is comprised of \$4.4 million of deferred tax liability related to the difference between the book and tax basis of identifiable intangible assets and \$0.1 million of deferred tax liability related to the difference between the book and tax basis on identifiable tangible asset and liability accounts.

The goodwill and \$9.5 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also include \$8.3 million allocated to customer relationships and \$0.1 million allocated to backlog, which are being amortized over periods of 7 years and 3 months, respectively. Goodwill and other intangibles of Josper are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

The Josper purchase agreement includes an earnout provision providing for a contingent payment due to the sellers to the extent certain financial targets are exceeded. This earnout is payable in 2019, 2020 and 2021, if Josper exceeds certain earnings targets for the twelve months ended December 31, 2018, December 31, 2019 and December 31, 2020, respectively. The contractual obligation associated with this contingent earnout provision recognized on the acquisition date is \$3.5 million.

Taylor

On June 22, 2018, the company completed its acquisition of all of the capital stock of the Taylor Company ("Taylor"), a world leader in beverage solutions, soft serve and ice cream dispensing equipment, frozen drink machines, and automated double-sided grills, located in Rockton, Illinois, for a purchase price of approximately \$1.0 billion. During the fourth quarter of 2018, the company finalized the working capital provision provided for by the purchase agreement resulting in a refund from the seller of \$11.5 million.

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

	(as initially reported) June 22, 2018	Measurement Period Adjustments	(as adjusted) June 22, 2018
Cash	\$ 2,551	\$ 64	\$ 2,615
Current assets	71,162	(2,011)	69,151
Property, plant and equipment	21,187	(556)	20,631
Goodwill	491,339	(120,497)	370,842
Other intangibles	484,210	119,550	603,760
Other assets	—	361	361
Long-term deferred tax asset	—	227	227
Current liabilities	(48,417)	(4,099)	(52,516)
Other non-current liabilities	(8,161)	(648)	(8,809)
Net assets acquired and liabilities assumed	\$ 1,013,871	\$ (7,609)	\$ 1,006,262

The goodwill and \$304.7 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also include \$290.9 million allocated to customer relationships, \$1.7 million of existing developed oven technology, \$4.4 million of equipment backlog, and \$2.1 million of deferred service backlog, which are being amortized over periods up to 15 years, 5 years, 3 months, and 3 years, respectively. Goodwill and other intangibles of Taylor are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. A significant portion of the assets are expected to be deductible for tax purposes.

M-TEK

On October 1, 2018, the company completed its acquisition of all of the capital stock of the M-TEK Corporation ("M-TEK"), a leading manufacturer of Modified Atmospheric Packaging (MAP) systems located in Elgin, Illinois, for a purchase price of approximately \$20.0 million. During the first quarter of 2019, the company finalized the working capital provision provided by the purchase agreement resulting in no adjustment to the purchase price.

The final allocation of consideration paid for the M-TEK acquisition is summarized as follows (in thousands):

	(as initially reported) October 1, 2018	Measurement Period Adjustments	(as adjusted) October 1, 2018
Current assets	\$ 2,745	\$ —	\$ 2,745
Property, plant and equipment	2,497	—	2,497
Goodwill	11,610	(1,000)	10,610
Other intangibles	3,294	1,000	4,294
Current liabilities	(144)	—	(144)
Net assets acquired and liabilities assumed	\$ 20,002	\$ —	\$ 20,002

The goodwill and \$1.0 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also include \$2.7 million allocated to customer relationships, \$0.3 million allocated to developed technology, and \$0.3 million allocated to backlog, which are being amortized over periods of 5 years, 5 years and 3 months, respectively. Goodwill and other intangibles of M-TEK are allocated to the Food Processing Equipment Group for segment reporting purposes. These assets are expected to be deductible for tax purposes.

Crown

On December 3, 2018, the company completed its acquisition of all of the capital stock of the Crown Food Service Equipment, Ltd. ("Crown"), a leading design and manufacturer of steam cooking equipment for the commercial foodservice industry located in Toronto, Canada, for a purchase price of approximately \$41.8 million, net of cash acquired. During the second quarter of 2019, the company finalized the working capital provision provided for by the purchase agreement resulting in a refund from the seller of \$0.2 million.

The following estimated fair values of assets acquired and liabilities assumed are provisional and are based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed (in thousands):

	(as initially reported) December 3, 2018	Preliminary Measurement Period Adjustments	(as adjusted) December 3, 2018
Cash	\$ 495	\$ —	\$ 495
Current assets	5,045	—	5,045
Property, plant and equipment	8,710	3,658	12,368
Goodwill	31,226	(4,805)	26,421
Other intangibles	—	2,958	2,958
Current liabilities	(2,340)	(281)	(2,621)
Long-term deferred tax liability	(668)	(1,753)	(2,421)
Net assets acquired and liabilities assumed	\$ 42,468	\$ (223)	\$ 42,245

The long term deferred tax liability amounted to \$2.4 million. The net deferred tax liability is comprised of \$0.8 million of deferred tax liability related to the difference between the book and tax basis of identifiable intangible assets and \$1.6 million of deferred tax liability related to the difference between the book and tax basis on identifiable tangible asset and liability accounts.

The goodwill and \$3.0 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Goodwill and other intangibles of Crown are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. This asset is not expected to be deductible for tax purposes.

The company believes that information gathered to date provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the company is waiting for additional information necessary to finalize those fair values. Thus, the provisional measurements of fair value set forth above are subject to change. The company expects to complete the purchase price allocation as soon as practicable but no later than one year from the acquisition date.

EVO

On December 31, 2018, the company completed its acquisition of all of the capital stock of EVO America, Inc. ("EVO"), a leading design and manufacturer of ventless cooking equipment for the commercial foodservice industry, located near Portland, Oregon, for a purchase price of approximately \$12.3 million, net of cash acquired. During the second quarter of 2019, the company finalized the working capital provision provided for by the purchase agreement resulting in a refund from the seller of \$0.1 million.

The following estimated fair values of assets acquired and liabilities assumed are provisional and are based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed (in thousands):

	(as initially reported) December 31, 2018	Preliminary Measurement Period Adjustments	(as adjusted) December 31, 2018
Cash	\$ 162	\$ —	\$ 162
Current assets	1,490	—	1,490
Goodwill	6,896	(53)	6,843
Other intangibles	5,081	—	5,081
Current liabilities	(518)	—	(518)
Long-term deferred tax liability	(540)	—	(540)
Other non-current liabilities	(12)	—	(12)
Net assets acquired and liabilities assumed	\$ 12,559	\$ (53)	\$ 12,506

The long term deferred tax liability amounted to \$0.5 million. The net deferred tax liability is comprised of \$0.6 million of deferred tax liability related to the difference between the book and tax basis on identifiable intangible asset and liability accounts and \$0.1 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 \$3.0 million of other intangibles associated with the trade name is subject to the non-amortization provisions of ASC 350. Other intangibles also include \$1.9 million allocated to customer relationships and \$0.2 million allocated to developed technology, which are being amortized over periods of 10 years and 7 years, respectively. Goodwill and other intangibles of EVO are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

The company believes that information gathered to date provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the company is waiting for additional information necessary to finalize those fair values. Thus, the provisional measurements of fair value set forth above are subject to change. The company expects to complete the purchase price allocation as soon as practicable but no later than one year from the acquisition date.

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. During the third quarter of 2019, the company finalized the working capital provision provided for by the purchase agreement resulting in a payment due seller of \$0.1 million.

The following estimated fair values of assets acquired and liabilities assumed are provisional and are based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed (in thousands):

	(as initially reported) April 1, 2019	Preliminary Measurement Period Adjustments	(as adjusted) April 1, 2019
Cash	\$ 843	\$ —	\$ 843
Current assets	33,666	(751)	32,915
Property, plant and equipment	15,959	(52)	15,907
Goodwill	31,207	1,167	32,374
Other intangibles	53,450	—	53,450
Current liabilities	(15,130)	(290)	(15,420)
Long-term deferred tax liability	(13,082)	—	(13,082)
Net assets acquired and liabilities assumed	\$ 106,913	\$ 74	\$ 106,987

The long term deferred tax liability amounted to \$13.1 million. The net deferred tax liability is comprised of \$13.2 million of deferred tax liability related to the difference between the book and tax basis on identifiable intangible asset and liability accounts and \$0.1 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 \$27.1 million of other intangibles associated with the trade name is subject to the non-amortization provisions of ASC 350. Other intangibles also include \$24.6 million allocated to customer relationships, \$1.5 million allocated to developed technology and \$0.3 million allocated to backlog, which are being amortized over periods of 7 years, 5 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.

The company believes that information gathered to date provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the company is waiting for additional information necessary to finalize those fair values. Thus, the provisional measurements of fair value set forth above are subject to change. The company expects to complete the purchase price allocation as soon as practicable but no later than one year from the acquisition date.

Powerhouse

On April 1, 2019, the company completed the acquisition of all of the capital stock of Powerhouse Dynamics, Inc. ("Powerhouse"), a leader in cloud-based IoT solutions for the foodservice industry located near Boston, Massachusetts, for a purchase price of approximately \$11.0 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 seller of \$0.1 million.

The following estimated fair values of assets acquired and liabilities assumed are provisional and are based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed (in thousands):

	(as initially reported) April 1, 2019	Preliminary Measurement Period Adjustments	(as adjusted) April 1, 2019
Cash	\$ 24	\$ —	\$ 24
Current assets	1,351	—	1,351
Property, plant and equipment	14	—	14
Goodwill	5,789	56	5,845
Other intangibles	5,060	—	5,060
Long-term deferred tax asset	1,673	—	1,673
Current liabilities	(2,624)	—	(2,624)
Other non-current liabilities	(271)	—	(271)
Net assets acquired and liabilities assumed	\$ 11,016	\$ 56	\$ 11,072

The long term deferred tax asset amounted to \$1.7 million and is comprised of tax loss carryforwards.

The goodwill is subject to the non-amortization provisions of ASC 350. Other intangibles also include \$2.2 million allocated to customer relationships and \$2.8 million allocated to developed technology, which are both being amortized over periods of 6 years. Goodwill and other intangibles of Powerhouse are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

The company believes that information gathered to date provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the company is waiting for additional information necessary to finalize those fair values. Thus, the provisional measurements of fair value set forth above are subject to change. The company expects to complete the purchase price allocation as soon as practicable but no later than one year from the acquisition date.

Ss Brewtech

On June 15, 2019, the company completed the acquisition of substantially all of the assets of Ss Brewtech, a market leader in professional craft brewing and beverage equipment based in Santa Ana, California, for a purchase price of approximately \$36.8 million, net of cash acquired. The purchase price is subject to adjustment based upon a working capital provision provided by the purchase agreement. The company expects to finalize this in the fourth quarter of 2019.

The following estimated fair values of assets acquired and liabilities assumed are provisional and are based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed (in thousands):

	(as initially reported) June 15, 2019	Preliminary Measurement Period Adjustments	(as adjusted) June 15, 2019
Cash	\$ 468	\$ (10)	\$ 458
Current assets	3,936	980	4,916
Property, plant and equipment	30	18	48
Goodwill	26,528	(1,005)	25,523
Other intangibles	15,318	199	15,517
Long-term deferred tax asset	155	—	155
Current liabilities	(3,393)	(182)	(3,575)
Other non-current liabilities	(5,768)	—	(5,768)
Consideration paid at closing	\$ 37,274	\$ —	\$ 37,274
Deferred payments	2,404	—	2,404
Contingent consideration	4,258	—	4,258
Net assets acquired and liabilities assumed	\$ 43,936	\$ —	\$ 43,936

The goodwill and \$9.3 million of other intangibles associated with the trade name is subject to the non-amortization provisions of ASC 350. Other intangibles also include \$5.7 million allocated to customer relationships, \$0.5 million allocated to developed technology and \$0.1 million allocated to backlog, which are being amortized over periods of 7 years, 6 years and 3 months, respectively. Goodwill and other intangibles of Brewtech are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are expected to be deductible for tax purposes.

The Brewtech purchase agreement includes deferred payments and an earnout provision providing for a contingent payment due to the sellers to the extent certain financial targets are exceeded. The deferred payments are payable in 2020, 2021 and 2022. The contractual obligation associated with the deferred payments on the acquisition date is \$2.4 million. The earnout is payable in 2023, if Brewtech exceeds certain sales and earnings targets for the cumulative three years ended June 15, 2022. The contractual obligation associated with this contingent earnout provision recognized on the acquisition date is \$4.3 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. 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.

Packaging Progressions, Inc.

On July 15, 2019, the company completed the acquisition of substantially all of the assets of Packaging Progressions, Inc. ("Pacproinc"), a market leader in automated packaging technologies for customers in the protein and baker segments based in Souderton, Pennsylvania, for a purchase price of approximately \$71.7 million, net of cash acquired. The purchase price is subject to adjustment based upon a working capital provision provided by the purchase agreement. The company expects to finalize this in the fourth quarter of 2019.

The following estimated fair values of assets acquired and liabilities assumed are provisional and are based on the information that was available as of the acquisition date to estimate the fair value of assets acquired and liabilities assumed (in thousands):

	(as initially reported) July 16, 2019	
Cash	\$	1,524
Current assets		8,426
Property, plant and equipment		7,225
Goodwill		43,629
Other intangibles		21,301
Current liabilities		(8,835)
Net assets acquired and liabilities assumed	\$	<u>73,270</u>

The goodwill and \$10.3 million of other intangibles associated with the trade name is subject to the non-amortization provisions of ASC 350. Other intangibles also include \$9.0 million allocated to customer relationships, \$0.8 million allocated to developed technology and \$1.2 million allocated to backlog, which are being amortized over periods of 5 years, 7 years and 3 months, respectively. Goodwill and other intangibles of Pacproinc are allocated to the Food Processing Equipment Group for segment reporting purposes. These assets are expected to be deductible for tax purposes.

The company believes that information gathered to date provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the company is waiting for additional information necessary to finalize those fair values. Thus, the provisional measurements of fair value set forth above are subject to change. The company expects to complete the purchase price allocation as soon as practicable but no later than one year from the acquisition date.

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 28, 2019 and September 29, 2018, assumes the 2018 acquisitions of Hinds-Bock, Ve.Ma.C, Josper, Firex, Taylor, M-TEK and Crown and the 2019 acquisitions of EVO, Cooking Solutions Group, Powerhouse, Ss Brewtech and Pacproinc were completed on December 31, 2017 (first day of fiscal year 2018). The following pro forma results include adjustments to reflect additional interest expense to fund the acquisitions, amortization of intangibles associated with the acquisitions, and the effects of adjustments made to the carrying value of certain assets (in thousands, except per share data):

	Nine Months Ended	
	September 28, 2019	September 29, 2018
Net sales	\$ 2,221,546	\$ 2,267,511
Net earnings	247,532	202,971
Net earnings per share:		
Basic	\$ 4.45	\$ 3.65
Diluted	4.45	3.65

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 February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The amendments under this pronouncement change the way all leases with a duration of one year or more are treated. Under this guidance, lessees will be required to capitalize virtually all leases on the balance sheet as a right-of-use asset and an associated financing lease liability or operating lease liability. The company adopted this guidance on December 30, 2018 using the modified retrospective method. The company has elected the package of practical expedients to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs. The adoption of this guidance increased total assets and liabilities due to the recognition of right-of-use assets and lease liabilities amounting to approximately \$85.0 million. For additional information related to the impact of adopting this guidance, see Note 14 of the Condensed Consolidated Financial Statements.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities". The amendments in ASU-12 provide new guidance about income statement classification and eliminates the requirement to separately measure and report hedge ineffectiveness. The entire change in fair value for qualifying hedge instruments included in the effectiveness is recorded in other comprehensive income (OCI) and amounts deferred in OCI are reclassified to earnings in the same income statement line item in which the earnings effect of the hedged item is reported. The adoption of this guidance on December 30, 2018 did not have a material impact on the company's Condensed Consolidated Financial Statements. For additional information related to the impact of adopting this guidance, see Note 13 of the Condensed Consolidated Financial Statements.

In June 2018, the FASB issued ASU 2018-07, "Improvements to Nonemployee Share-Based Payment Accounting". The amendments in ASU-08 simplify several aspects of the accounting for nonemployee share-based payment transactions resulting from expanding the scope of Topic 718, Compensation—Stock Compensation, to include share-based payment transactions for acquiring goods and services from nonemployees. The adoption of this guidance on December 30, 2018 did not have an impact on the company's Condensed Consolidated Financial Statements.

In August of 2018, the SEC published Final Rule Release No. 33-10532, "Disclosure Update and Simplification." This guidance streamlines disclosure requirements by removing certain redundant topics and is effective for quarterly and annual reports submitted after November 5, 2018. The adoption of this guidance on December 30, 2018 resulted in the presentation and expansion of the company's Condensed Consolidated Statements of Changes in Stockholders' Equity to display quarter-to-quarter details.

Accounting Pronouncements - To be 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 ASU is effective for annual reporting periods, and interim reporting periods, beginning after December 15, 2019. The company is in the process of assessing the impact on its receivables portfolio, which is the only financial instrument in scope of this standard, control environment and impact the adoption of this ASU will have 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. This ASU is effective for annual reporting periods, and interim reporting periods, beginning after December 15, 2019. Early adoption is permitted for testing dates after January 1, 2017. The company is evaluating the application of this ASU on the company's annual impairment test. The company does not expect the adoption of this ASU to have a material impact on its 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 the topic in order to clarify and improve the cost-benefit nature of disclosures. This ASU is effective for annual reporting periods, and interim periods with those reporting periods, beginning after December 15, 2019 with early adoption permitted. The company does not expect the adoption of this ASU to have a material impact on its Condensed Consolidated Financial Statements.

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 ASU is effective for annual reporting periods, and interim periods with 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 ASU will have on its 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. This ASU is effective for annual reporting periods, and interim periods with those reporting periods, beginning after December 15, 2019 with early adoption permitted. The company does not expect the adoption of this ASU to have a material impact on its Condensed Consolidated Financial Statements.

In November 2018, the FASB issued ASU No. 2018-19, Codification Improvements to Topic 326, Financial Instruments, which clarifies that receivables arising from operating leases are not within the scope of the credit losses standard, but rather, should be accounted for in accordance with the lease standard. This ASU is effective for annual reporting periods, and interim periods with those reporting periods, beginning after December 15, 2019 with early adoption permitted for those that have adopted ASU No. 2016-13. The company does not expect this ASU to have a material impact on its Condensed Consolidated Financial Statements.

5) Revenue Recognition

Disaggregation of Revenue

We disaggregate our net sales by reportable operating segment and geographical location as we believe it best depicts how the nature, timing and uncertainty of our 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 our long-term contracts within the Food Processing Equipment group is recognized over time as the equipment is manufactured and assembled. The following table summarizes our net sales by reportable operating segment and geographical location (in thousands):

	Commercial Foodservice	Food Processing	Residential Kitchen	Total
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>
Three Months Ended September 29, 2018				
United States and Canada	\$ 318,962	\$ 57,235	\$ 98,136	\$ 474,333
Asia	50,996	6,464	1,653	59,113
Europe and Middle East	83,763	19,194	51,936	154,893
Latin America	17,877	5,364	1,751	24,992
Total	<u>\$ 471,598</u>	<u>\$ 88,257</u>	<u>\$ 153,476</u>	<u>\$ 713,331</u>
Nine Months Ended September 29, 2018				
United States and Canada	\$ 863,598	\$ 183,476	\$ 280,116	\$ 1,327,190
Asia	117,987	23,899	5,232	147,118
Europe and Middle East	225,726	44,729	160,810	431,265
Latin America	38,308	18,374	4,004	60,686
Total	<u>\$ 1,245,619</u>	<u>\$ 270,478</u>	<u>\$ 450,162</u>	<u>\$ 1,966,259</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 28, 2019	Dec 29, 2018
Contract assets	\$ 19,342	\$ 14,048
Contract liabilities	\$ 71,394	\$ 57,913
Non-current contract liabilities	\$ 13,017	\$ 12,170

During the nine months period ended September 28, 2019, the company reclassified \$8.4 million to receivables, which was included in the contract asset balance at the beginning of the period. During the nine months period ended September 28, 2019, the company recognized revenue of \$51.7 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 \$70.2 million during the nine months period ended September 28, 2019. 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 28, 2019.

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 29, 2018	\$ (112,771)	\$ (170,938)	\$ 7,233	\$ (276,476)
Other comprehensive income before reclassification	(27,190)	4,966	(31,096)	(53,320)
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)
Balance as of December 30, 2017	\$ (69,721)	\$ (203,063)	\$ 6,365	\$ (266,419)
Adoption of ASU 2018-02 (2)	—	(487)	1,619	1,132
Other comprehensive income before reclassification	(29,879)	8,660	10,299	(10,920)
Amounts reclassified from accumulated other comprehensive income	—	—	229	229
Net current-period other comprehensive income	\$ (29,879)	\$ 8,173	\$ 12,147	\$ (9,559)
Balance as of September 29, 2018	\$ (99,600)	\$ (194,890)	\$ 18,512	\$ (275,978)

(1) 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. As of September 29, 2018 pension and interest rate swap amounts are net of tax of \$(41.7) million and \$6.8 million, respectively. During the nine months ended September 29, 2018, the adjustments to pension benefit costs and unrealized gain/(loss) interest rate swap were net of tax of \$1.9 million and \$2.6 million, respectively.

(2) As of December 31, 2017, the company adopted ASU 2018-02, "Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income". This guidance allowed for the reclassification of \$1.1 million of stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 from accumulated other comprehensive income to retained earnings.

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

	Three Months Ended		Nine Months Ended	
	Sep 28, 2019	Sep 29, 2018	Sep 28, 2019	Sep 29, 2018
Net earnings	\$ 82,020	\$ 72,905	\$ 243,243	\$ 222,313
Currency translation adjustment	(25,428)	(9,718)	(27,190)	(29,879)
Pension liability adjustment, net of tax	4,975	1,674	4,966	8,173
Unrealized gain on interest rate swaps, net of tax	(5,652)	4,166	(29,143)	12,147
Comprehensive income	\$ 55,915	\$ 69,027	\$ 191,876	\$ 212,754

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 28, 2019 and December 29, 2018 are as follows (in thousands):

	Sep 28, 2019	Dec 29, 2018
Raw materials and parts	\$ 275,657	\$ 245,976
Work-in-process	72,230	51,164
Finished goods	266,215	224,670
	\$ 614,102	\$ 521,810

8) Goodwill

Changes in the carrying amount of goodwill for the nine months ended September 28, 2019 are as follows (in thousands):

	Commercial Foodservice	Food Processing	Residential Kitchen	Total
Balance as of December 29, 2018	\$ 1,102,067	\$ 219,054	\$ 422,054	\$ 1,743,175
Goodwill acquired during the year	71,763	43,629	—	115,392
Measurement period adjustments to goodwill acquired in prior year	(27,863)	(3,722)	—	(31,585)
Exchange effect	(8,092)	(2,710)	(6,821)	(17,623)
Balance as of September 28, 2019	\$ 1,137,875	\$ 256,251	\$ 415,233	\$ 1,809,359

9) Intangibles

Intangible assets consist of the following (in thousands):

	September 28, 2019			December 29, 2018		
	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	9.3	\$ 714,398	\$ (268,653)	9.5	\$ 644,145	\$ (222,661)
Backlog	1.7	29,075	(27,697)	2.8	27,065	(24,755)
Developed technology	4.8	29,709	(21,108)	5.9	39,624	(20,998)
		<u>\$ 773,182</u>	<u>\$ (317,458)</u>		<u>\$ 710,834</u>	<u>\$ (268,414)</u>
Indefinite-lived assets:						
Trademarks and tradenames		<u>\$ 984,697</u>			<u>\$ 918,604</u>	

The aggregate intangible amortization expense was \$17.3 million and \$17.6 million for the third quarter periods ended September 28, 2019 and September 29, 2018, respectively. The aggregate intangible amortization expense was \$48.1 million and \$38.8 million for the nine months period ended September 28, 2019 and September 29, 2018, respectively. The estimated future amortization expense of intangible assets is as follows (in thousands):

Twelve Month Period coinciding with the end of our Fiscal Third Quarter	Amortization Expense
2020	\$ 66,374
2021	62,474
2022	59,370
2023	52,902
2024	43,887
Thereafter	170,717
	<u>\$ 455,724</u>

10) Accrued Expenses

Accrued expenses consist of the following (in thousands):

	Sep 28, 2019	Dec 29, 2018
Accrued payroll and related expenses	\$ 75,602	\$ 74,952
Contract liabilities	71,394	57,913
Accrued warranty	67,612	59,451
Accrued customer rebates	42,698	45,740
Accrued short-term leases	23,070	—
Accrued sales and other tax	17,853	19,452
Accrued product liability and workers compensation	14,651	16,284
Accrued professional fees	14,461	17,313
Accrued agent commission	14,268	11,969
Other accrued expenses	59,133	64,372
	<u>\$ 400,742</u>	<u>\$ 367,446</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 28, 2019
Balance as of December 29, 2018	\$ 59,451
Warranty reserve related to acquisitions	7,246
Warranty expense	51,733
Warranty claims	(50,818)
Balance as of September 28, 2019	<u>\$ 67,612</u>

12) Financing Arrangements

	Sep 28, 2019	Dec 29, 2018
	(in thousands)	
Senior secured revolving credit line	\$ 1,953,873	\$ 1,887,764
Foreign loans	5,358	4,166
Other debt arrangement	—	175
Total debt	1,959,231	1,892,105
Less: Current maturities of long-term debt	3,331	3,207
Long-term debt	<u>1,955,900</u>	<u>1,888,898</u>

On July 28, 2016, the company entered into an amended and restated five-year \$2.5 billion multi-currency senior secured revolving credit agreement (the "Credit Facility"). On December 18, 2018, the company entered into an amendment to the Credit Facility, increasing the revolving commitments under the Credit Facility by \$500.0 million to a total of \$3.0 billion. As of September 28, 2019, the company had \$2.0 billion of borrowings outstanding under the Credit Facility, including \$1.9 billion of borrowings in U.S. Dollars and \$42.4 million of borrowings denominated in Euro. The company also had \$11.4 million in outstanding letters of credit as of September 28, 2019, which reduces the borrowing availability under the Credit Facility. Remaining borrowing availability under this facility was \$1.0 billion at September 28, 2019.

At September 28, 2019, 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 on the debt under the Credit Facility was equal to 3.66% 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 28, 2019.

In addition, the company has other international credit facilities to fund working capital needs outside the United States and the United Kingdom. At September 28, 2019, these foreign credit facilities amounted to \$5.4 million in U.S. Dollars with a weighted average per annum interest rate of approximately 5.42%.

The company's debt is reflected on the balance sheet at cost. 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 company estimated the fair value of its loans by calculating the upfront cash payment a market participant would require to assume the company's obligations. The upfront cash payment is the amount that a market participant would be able to lend to achieve sufficient cash inflows to cover the cash outflows under the company's senior secured revolving credit facility assuming the facility was outstanding in its entirety until maturity. Since the company maintains its borrowings under a revolving credit facility and there is no predetermined borrowing or repayment schedule, for purposes of this calculation the company calculated the fair value of its obligations assuming the current amount of debt at the end of the period was outstanding until the maturity of the company's Credit Facility in July 2021. Although borrowings could be materially greater or less than the current amount of borrowings outstanding at the end of the period, it is not practical to estimate the amounts that may be outstanding during future periods. The carrying value and estimated aggregate fair value, a level 2 measurement, based primarily on market prices, of debt is as follows (in thousands):

	Sep 28, 2019		Dec 29, 2018	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Total debt	\$ 1,959,231	\$ 1,959,231	\$ 1,892,105	\$ 1,892,105

The company uses floating-to-fixed interest rate swap agreements to hedge variable interest rate risk associated with the Credit Facility. At September 28, 2019, the company had outstanding floating-to-fixed interest rate swaps totaling \$51.0 million notional amount carrying an average interest rate of 1.27% maturing in less than 12 months and \$948.0 million notional amount carrying an average interest rate of 2.22% that mature in more than 12 months but less than 72 months.

The company believes that its current capital resources, including cash and cash equivalents, cash expected to be generated from operations, funds available from its current lenders and access to the credit and capital markets will be sufficient to finance its operations, debt service obligations, capital expenditures, product development and expenditures for the foreseeable future.

The terms of the Credit Facility 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 and (ii) a maximum 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. 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 28, 2019, the company was in compliance with all covenants pursuant to its borrowing agreements.

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.

On December 30, 2018, the company adopted the new accounting standard ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities" using the modified retrospective method. Prior to the adoption of ASU 2017-12, the ineffective portion of a hedge's change in fair value was recognized in earnings. Upon adoption of ASU 2017-12, the company no longer recognizes hedge ineffectiveness in our Condensed Consolidated Statements of Comprehensive Income, but instead recognizes the entire change in the fair value of the hedge contract in other accumulated comprehensive income.

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 loss of \$0.1 million at the end of the third quarter of 2019.

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 28, 2019, the fair value of these instruments was a liability of \$29.7 million. The change in fair value of these swap agreements in the first nine months of 2019 was a loss of \$29.1 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 28, 2019	Dec 29, 2018
Fair value	Other assets	\$ 1,384	\$ 13,487
Fair value	Other non-current liabilities	\$ 31,065	\$ 4,125

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

	Presentation of Gain/(loss)	Three Months Ended		Nine Months Ended	
		Sep 28, 2019	Sep 29, 2018	Sep 28, 2019	Sep 29, 2018
Gain/(loss) recognized in accumulated other comprehensive income	Other comprehensive income	\$ (7,114)	\$ 5,389	\$ (37,090)	\$ 16,347
Gain/(loss) reclassified from accumulated other comprehensive income (effective portion)	Interest expense	\$ 403	\$ (7)	\$ 1,953	\$ 229
Gain/(loss) recognized in income (ineffective portion)	Other expense	\$ —	\$ 214	\$ —	\$ 101

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) Leases

Accounting Policy

On December 30, 2018, the company adopted the new accounting standard ASU No. 2016-02, "Leases" (ASC 842) using the modified retrospective method and elected to use the effective date as the date of initial application on transition. The company has elected the package of practical expedients to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs.

The adoption of ASC 842 represents a change in accounting principle that changes the way all leases with a duration of one year or more are treated. Under this guidance, lessees are required to capitalize virtually all leases on the balance sheet as a right-of-use asset and an associated financing lease liability or operating lease liability. The company determines if an arrangement is a lease at inception of a contract. Additionally, the guidance requires additional disclosure to enable users of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases.

The most material impact of the new standard is the recognition of new right-of-use (ROU) assets and lease liabilities on the Condensed Consolidated Balance Sheet for operating leases. Operating lease ROU assets are included in other assets and operating lease liabilities are included accrued expenses and other non-current liabilities. The lease liabilities are measured based upon the present value of minimum future payments and the ROU assets to be recognized will be equal to lease liabilities, adjusted for prepaid and accrued rent balances.

Leases

The company leases warehouse space, office facilities and equipment under operating leases. Leases with an initial term of 12 months or less are not recorded on the balance sheet. The company's lease terms include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense for these leases is recognized on a straight-line basis over the term of the lease. The company has operating lease costs of \$7.6 million and \$22.9 million for the three and nine months ended September 28, 2019, respectively, including short-term lease expense and variable lease costs, which were immaterial in the quarter.

Leases (in thousands)	September 28, 2019
Operating lease right-of-use assets	\$ 98,690
Operating Lease Liability:	
Current	23,070
Non-current	75,986
Total Liability	\$ 99,056

Total Lease Commitments (in thousands)

	Operating Leases
Remainder of 2019	\$ 6,792
2020	24,956
2021	21,755
2022	16,990
2023	11,678
2024 and thereafter	32,632
Total future lease commitments	114,803
Less imputed interest	15,747
Total	\$ 99,056

Other Lease Information (in thousands, except lease term and discount rate)	Three Months Ended September 28, 2019	Nine Months Ended September 28, 2019
<u>Supplemental cash flow information</u>		
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	\$ 6,605	\$ 18,905
Right-of-use assets obtained in exchange for lease obligations:		
Operating leases	10,001	23,993
		September 28, 2019
Weighted-average remaining lease terms leases - Operating		6.2 years
Weighted-average discount rate - Operating		3.4%

15) 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, Doyon, Eswood, EVO, Firex, Follett, Frifri, Giga, Globe, Goldstein, Holman, Houno, IMC, Induc, Jade, JoeTap, Jospet, L2F, Lang, Lincat, MagiKitch'n, Market Forge, Marsal, Middleby Marshall, MPC, Nieco, Nu-Vu, PerfectFry, Pitco, QualServ, SiteSage, Southbend, Star, Sveba Dahlen, Ss Brewtech, 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, 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 28, 2019		Sep 29, 2018		Sep 28, 2019		Sep 29, 2018	
	Sales	Percent	Sales	Percent	Sales	Percent	Sales	Percent
<u>Business Segments:</u>								
Commercial Foodservice	\$ 500,990	69.2%	\$ 471,598	66.1%	\$ 1,471,800	67.8%	\$ 1,245,619	63.3%
Food Processing	89,147	12.3	88,257	12.4	279,474	12.9	270,478	13.8
Residential Kitchen	133,877	18.5	153,476	21.5	420,546	19.3	450,162	22.9
Total	<u>\$ 724,014</u>	<u>100.0%</u>	<u>\$ 713,331</u>	<u>100.0%</u>	<u>\$ 2,171,820</u>	<u>100.0%</u>	<u>\$ 1,966,259</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 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 and amortization expense	17,643	3,774	5,310	410	27,137
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 and amortization expense	50,233	9,721	16,005	1,313	77,272
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
Three Months Ended September 29, 2018					
Net sales	\$ 471,598	\$ 88,257	\$ 153,476	\$ —	\$ 713,331
Income (loss) from operations ⁽²⁾⁽³⁾	102,091	13,831	9,489	(17,734)	107,677
Depreciation and amortization expense	17,558	2,209	7,606	460	27,833
Net capital expenditures	7,665	318	1,779	(1,418)	8,344
Nine Months Ended September 29, 2018					
Net sales	\$ 1,245,619	\$ 270,478	\$ 450,162	\$ —	\$ 1,966,259
Income (loss) from operations ⁽²⁾⁽³⁾	284,645	39,157	32,598	(50,421)	305,979
Depreciation and amortization expense	32,907	9,385	22,767	1,396	66,455
Net capital expenditures	16,371	7,274	9,421	(514)	32,552
Total assets	\$ 2,907,387	\$ 492,151	\$ 1,111,546	\$ 67,525	\$ 4,578,609

(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 17 for further details.

Geographic Information

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

	Sep 28, 2019	Sep 29, 2018
United States and Canada	\$ 309,117	\$ 268,952
Asia	21,668	12,291
Europe and Middle East	139,486	119,732
Latin America	8,030	654
Total international	\$ 169,184	\$ 132,677
	\$ 478,301	\$ 401,629

16) 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, which was acquired as part of the Star acquisition. Benefits are determined based upon retirement age and years of service with the company. This defined benefit plan was frozen on April 1, 2008, and no further benefits accrue to the participants beyond this date. Plan participants will receive or continue to receive payments for benefits earned on or prior to April 1, 2008 upon reaching retirement age.

The company 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, which was acquired as part of the Lincat acquisition. Benefits are determined based upon retirement age and years of service with the company. This defined benefit plan was frozen on April 30, 2010 prior to Middleby's acquisition of the company. No further benefits accrue to the participants beyond this date. Plan participants will receive or continue to receive payments for benefits earned on or prior to April 30, 2010 upon reaching retirement age.

The company 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, Ireland 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 28, 2019	Sep 29, 2018	Sep 28, 2019	Sep 29, 2018
Net Periodic Pension Benefit:				
Service cost	\$ 593	\$ 915	\$ 1,839	\$ 2,849
Interest cost	7,995	7,756	24,776	24,147
Expected return on assets	(16,118)	(18,062)	(49,948)	(56,235)
Amortization of net (gain) loss	149	967	462	3,011
Amortization of prior service cost (credit)	614	—	1,904	—
Curtailement loss (gain)	185	136	573	1,100
Pension settlement gain	—	(22)	—	(69)
	<u>\$ (6,582)</u>	<u>\$ (8,310)</u>	<u>\$ (20,394)</u>	<u>\$ (25,197)</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.

17) Restructuring

Commercial Foodservice Equipment Group:

During the three months period ended September 28, 2019, the company undertook cost reduction initiatives related to the Commercial Foodservice Equipment Group. These actions, which are not material to the company's operations, resulted in a charge of \$2.1 million in the three months ended September 28, 2019 primarily for severance related to headcount reductions and facility consolidations. 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 \$10.0 million to \$15.0 million annually. The realization of the savings will primarily begin in fiscal 2020 as additional restructuring costs will be incurred in the fourth quarter as these actions are completed. At September 28, 2019, the restructuring obligations accrued for these initiatives are immaterial and will be completed by first quarter of fiscal year 2020.

Residential Kitchen Equipment Group:

Since the 2015 acquisition of the AGA Group, the company undertook various acquisition integration initiatives including organizational restructuring, headcount reductions and consolidation and disposition of certain facilities and business operations, including the impairment of equipment and facilities. Most recently during 2018, the company undertook additional restructuring efforts related to Grange, a non-core business within the AGA Group, and elected to cease its operations. This process was largely completed in the fourth quarter of 2018. Related to the AGA Group, the company recorded additional expense primarily related to headcount reductions of \$0.7 million and \$2.4 million in the three and nine months ended September 28, 2019, respectively. These expenses are reflected in restructuring expenses in the Condensed Consolidated Statements of Comprehensive Income. The cumulative expenses incurred to date for these initiatives is approximately \$58.1 million. The primary realization of the cost savings began in 2017 and 2018 related to compensation and facility costs of approximately \$20.0 million annually. At September 28, 2019, the restructuring obligations accrued for these initiatives are immaterial and will be completed by the end of fiscal year 2019.

Additionally, during the three months period ended September 28, 2019, the company incurred \$1.3 million of restructuring costs, primarily for severance related to headcount reductions and facility consolidations. These expenses are also 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 \$3.0 million annually. The realization of the savings will primarily begin in fiscal 2020 as additional restructuring costs will be incurred in the fourth quarter as these actions are completed. At September 28, 2019, the restructuring obligations accrued for these initiatives are immaterial and will be completed by first quarter of fiscal year 2020.

The restructuring expenses for the Food Processing Equipment Group and Corporate were not material during the period.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

Informational Notes

This report contains forward-looking statements subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. The company cautions readers that these projections are based upon future results or events and are highly dependent upon a variety of important factors which could cause such results or events to differ materially from any forward-looking statements which may be deemed to have been made in this report, or which are otherwise made by or on behalf of the company. Such factors include, but are not limited to, volatility in earnings resulting from goodwill impairment losses which may occur irregularly and in varying amounts; variability in financing costs; quarterly variations in operating results; dependence on key customers; international exposure; foreign exchange and political risks affecting international sales; ability to protect trademarks, copyrights and other intellectual property; changing market conditions; the impact of competitive products and pricing; the timely development and market acceptance of the company's products; the availability and cost of raw materials; and other risks detailed herein and from time-to-time in the company's SEC filings, including the company's 2018 Annual Report on Form 10-K.

Net Sales Summary (dollars in thousands)

	Three Months Ended				Nine Months Ended			
	Sep 28, 2019		Sep 29, 2018		Sep 28, 2019		Sep 29, 2018	
	Sales	Percent	Sales	Percent	Sales	Percent	Sales	Percent
<u>Business Segments:</u>								
Commercial Foodservice	\$ 500,990	69.2%	\$ 471,598	66.1%	\$ 1,471,800	67.8%	\$ 1,245,619	63.3%
Food Processing	89,147	12.3	88,257	12.4	279,474	12.9	270,478	13.8
Residential Kitchen	133,877	18.5	153,476	21.5	420,546	19.3	450,162	22.9
Total	<u>\$ 724,014</u>	<u>100.0%</u>	<u>\$ 713,331</u>	<u>100.0%</u>	<u>\$ 2,171,820</u>	<u>100.0%</u>	<u>\$ 1,966,259</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 28, 2019	Sep 29, 2018	Sep 28, 2019	Sep 29, 2018
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	62.7	63.4	62.5	63.2
Gross profit	37.3	36.6	37.5	36.8
Selling, general and administrative expenses	20.0	19.8	20.5	20.3
Restructuring	0.6	1.7	0.3	0.9
Income from operations	16.7	15.1	16.7	15.6
Interest expense and deferred financing amortization, net	2.9	2.7	2.9	2.0
Net periodic pension benefit (other than service costs)	(1.0)	(1.3)	(1.0)	(1.4)
Other expense (income), net	0.2	—	—	—
Earnings before income taxes	14.6	13.7	14.8	15.0
Provision for income taxes	3.3	3.5	3.6	3.7
Net earnings	11.3%	10.2%	11.2%	11.3%

Three Months Ended September 28, 2019 as compared to Three Months Ended September 29, 2018

NET SALES. Net sales for the three months period ended September 28, 2019 increased by \$10.7 million or 1.5% to \$724.0 million as compared to \$713.3 million in the three months period ended September 29, 2018. Net sales increased by \$41.7 million, or 5.8%, from the fiscal 2018 acquisitions of M-TEK and Crown and the fiscal 2019 acquisitions of EVO, Cooking Solutions Group, Powerhouse, Ss Brewtech and Pacproinc. Excluding acquisitions and closure of a non-core business, net sales decreased \$28.6 million, or 4.0%, 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 28, 2019 decreased net sales by approximately \$7.9 million or 1.1%. Excluding the impact of foreign exchange, acquisitions and closure of a non-core business, sales decreased 2.9%, including a net sales increase of 0.5% at the Commercial Foodservice Equipment Group, a net sales decrease of 9.7% at the Food Processing Equipment Group and a net sales decrease of 9.6% at the Residential Kitchen Equipment Group.

- Net sales of the Commercial Foodservice Equipment Group increased by \$29.4 million, or 6.2%, to \$501.0 million in the three months period ended September 28, 2019, as compared to \$471.6 million in the prior year period. Net sales from the acquisitions of Crown, EVO, Cooking Solutions Group, Powerhouse, and Ss Brewtech, which were acquired on December 3, 2018, December 31, 2018, April 1, 2019, April 1, 2019, and June 15, 2019, respectively, accounted for an increase of \$31.3 million during the three months period ended September 28, 2019. Excluding the impact of acquisitions, net sales of the Commercial Foodservice Equipment Group decreased \$1.9 million, or 0.4%, as compared to the prior year period. Excluding the impact of foreign exchange and acquisitions, net sales increased \$2.3 million or 0.5% at the Commercial Foodservice Equipment Group. Sales increased primarily related to increased international revenues in Asia, Europe and Latin America. Domestically, the company realized a sales increase of \$27.6 million, or 8.7%, to \$346.6 million, as compared to \$319.0 million in the prior year period. This includes an increase of \$30.8 million from recent acquisitions. Excluding the acquisitions, the net decrease in domestic sales was \$3.2 million, or 1.0%. International sales increased \$1.8 million, or 1.2%, to \$154.4 million, as compared to \$152.6 million in the prior year period. This includes an increase of \$0.5 million from the recent acquisitions and a decrease of \$4.2 million related to the unfavorable impact of exchange rates. Excluding acquisitions and foreign exchange, the net sales increase in international sales was \$5.5 million, or 3.6%. The increase in international revenues reflects strengthening of sales in the Asian, European and Latin American markets.
- Net sales of the Food Processing Equipment Group increased by \$0.8 million, or 0.9%, to \$89.1 million in the three months period ended September 28, 2019, as compared to \$88.3 million in the prior year period. Net sales from the acquisitions of M-TEK, and Pacproinc, which were acquired on October 1, 2018 and July 16, 2019, respectively, accounted for an increase of \$10.4 million during the three months period ended September 28, 2019. Excluding the impact of the acquisition, net sales of the Food Processing Equipment Group decreased \$9.6 million, or 10.9%. Excluding the impact of foreign exchange and the acquisitions, net sales decreased 9.7% at the Food Processing Equipment Group. Domestically, the company realized a sales decrease of \$0.1 million, or 0.2%, to \$57.2 million, as compared to \$57.3 million in the prior year period. This includes an increase of \$10.3 million from the recent acquisitions. Excluding the acquisitions, the net decrease in domestic sales was \$10.4 million, or 18.2%. International sales increased \$0.9 million, or 2.9%, to \$31.9 million, as compared to \$31.0 million in the prior year period. Excluding foreign exchange and a nominal impact from acquisitions, the net sales increase in international sales was \$1.8 million, or 5.8%.
- Net sales of the Residential Kitchen Equipment Group decreased by \$19.6 million, or 12.8%, to \$133.9 million in the three months period ended September 28, 2019, as compared to \$153.5 million in the prior year period. Excluding the impact of foreign exchange and closure of a non-core business, net sales decreased \$14.5 million, or 9.6% at the Residential Kitchen Equipment Group. Domestically, excluding the impact of closure of non-core business, the company realized a decrease in domestic sales of \$10.8 million, or 11.1%, to \$86.9 million, as compared to \$97.7 million in the prior year period. International sales decreased \$8.4 million or 15.2% to \$47.0 million, as compared to \$55.4 million in the prior year period. This includes an unfavorable impact of exchange rates of \$2.7 million. Excluding foreign exchange and closure of a non-core business, the net sales decrease in international sales was \$3.7 million, or 6.9%.

GROSS PROFIT. Gross profit increased to \$270.0 million in the three months period ended September 28, 2019 from \$261.2 million in the prior year period, primarily reflecting the impact of increased sales from acquisitions, offset by the unfavorable impact of foreign exchange rates of \$2.8 million. The gross margin rate was 36.6% in the three months period ended September 29, 2018 as compared to 37.3% in the current year period.

- Gross profit at the Commercial Foodservice Equipment Group increased by \$11.7 million, or 6.7%, to \$187.1 million in the three months period ended September 28, 2019, as compared to \$175.4 million in the prior year period. Gross profit from the acquisitions accounted for \$10.4 million of the increase in gross profit during the period. Excluding the recent acquisitions, gross profit increased by \$1.3 million primarily related to improving margins from integrating acquisitions. The impact of foreign exchange rates decreased gross profit by approximately \$1.4 million. The gross margin rate increased to 37.3%, as compared to 37.2% in the prior year period. The gross margin rate excluding acquisitions and the impact of foreign exchange was 37.6%.
- Gross profit at the Food Processing Equipment Group increased by \$0.5 million, or 1.6%, to \$31.1 million in the three months period ended September 28, 2019, as compared to \$30.6 million in the prior year period. Gross profit from the acquisitions increased gross profit by \$4.5 million. Excluding the recent acquisitions, gross profit decreased by \$4.0 million. The impact of foreign exchange rates decreased gross profit by approximately \$0.4 million. The gross profit margin rate increased to 34.9%, as compared to 34.7% in the prior year period, reflecting a favorable product mix. The gross margin rate excluding acquisitions and the impact of foreign exchange was 33.9%.
- Gross profit at the Residential Kitchen Equipment Group decreased by \$4.5 million, or 8.0%, to \$52.1 million in the three months period ended September 28, 2019, as compared to \$56.6 million in the prior year period. The impact of foreign exchange rates decreased gross profit by approximately \$1.0 million. The gross margin rate increased to 38.9%, as compared to 36.9% in the prior year period, primarily related to the benefit of the disposition of the non-core business.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Combined selling, general and administrative expenses increased from \$141.4 million in the three months period ended September 29, 2018 to \$144.5 million in the three months period ended September 28, 2019. As a percentage of net sales, selling, general, and administrative expenses were 19.8% in the three months period ended September 29, 2018, as compared to 20.0% in the three months period ended September 28, 2019.

Selling, general and administrative expenses reflect increased costs of \$12.3 million associated with acquisitions, including \$3.1 million of intangible amortization expense. The impact of foreign exchange rates decreased selling, general and administrative expenses by \$1.7 million. Selling, general and administrative expenses decreased \$4.6 million related to lower compensation costs and \$1.5 million related to lower non-cash share based compensation.

RESTRUCTURING EXPENSES. Restructuring expenses decreased \$7.9 million from \$12.1 million in the three months period ended September 29, 2018 to \$4.2 million in the three months period ended September 28, 2019. Restructuring expenses related primarily to headcount reductions and cost reduction initiatives related to facility consolidations at the Commercial Foodservice Equipment Group and Residential Kitchen Equipment Group. In the three months period ended September 29, 2018, restructuring charges related primarily to exiting operations of a non-core business in the Residential Kitchen Equipment Group, as well as headcount reductions at the Commercial Foodservice Equipment Group and additional cost reduction initiatives related to the AGA Group.

NON-OPERATING EXPENSES. Interest and deferred financing amortization costs were \$20.8 million in the three months period ended September 28, 2019, as compared to \$19.1 million in the prior year period, reflecting increased interest due to higher interest rates and higher debt balances related to the funding of acquisitions.

INCOME TAXES. A tax provision of \$24.2 million, at an effective rate of 22.8%, was recorded during the three months period ended September 28, 2019, as compared to \$25.1 million at an effective rate of 25.6%, in the prior year period. The lower rate in the current year is primarily due to reversing reserves as a result of settlements with taxing authorities or lapses of statutes of limitations. The effective rates in 2019 and 2018 are higher than the federal tax rate of 21% primarily due to state taxes and foreign tax rate differentials.

Nine Months Ended September 28, 2019 as compared to Nine Months Ended September 29, 2018

NET SALES. Net sales for the nine months period ended September 28, 2019 increased by \$205.5 million or 10.5% to \$2,171.8 million as compared to \$1,966.3 million in the nine months period ended September 29, 2018. Net sales increased by \$240.0 million, or 12.2%, from the fiscal 2018 acquisitions of Hinds-Bock, Ve.Ma.C, Firex, Jospers, Taylor, M-TEK, and Crown and the fiscal 2019 acquisitions of EVO, Cooking Solutions Group, Powerhouse, Ss Brewtech, and Pacproinc. Excluding acquisitions and closure of a non-core business, net sales decreased \$26.2 million, or 1.3%, 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 28, 2019 decreased net sales by approximately \$31.0 million or 1.6%. Excluding the impact of foreign exchange, acquisitions and closure of a non-core business, sales increased 0.2% for the year, including a net sales increase of 2.0% at the Commercial Foodservice Equipment Group, a net sales decrease of 3.0% at the Food Processing Equipment Group and a net sales decrease of 2.6% at the Residential Kitchen Equipment Group.

- Net sales of the Commercial Foodservice Equipment Group increased by \$226.2 million, or 18.2%, to \$1,471.8 million in the nine months period ended September 28, 2019, as compared to \$1,245.6 million in the prior year period. Net sales from the acquisitions of Firex, Jospers, Taylor, Crown, EVO, Cooking Solutions Group, Powerhouse, and Ss Brewtech, which were acquired on April 27, 2018, May 10, 2018, June 22, 2018, December 3, 2018 and December 31, 2018, April 1, 2019, April 1, 2019, and June 15, 2019, respectively, accounted for an increase of \$218.6 million during the nine months period ended September 28, 2019. Excluding the impact of acquisitions, net sales of the Commercial Foodservice Equipment Group increased \$7.6 million, or 0.6%, as compared to the prior year period. Excluding the impact of foreign exchange and acquisitions, net sales increased \$24.3 million or 2.0% at the Commercial Foodservice Equipment Group. Sales increased primarily related to several rollouts with our major chain customers and increased international revenues in Asia and Latin America. Domestically, the company realized a sales increase of \$141.0 million, or 16.3%, to \$1,004.6 million, as compared to \$863.6 million in the prior year period. This includes an increase of \$131.1 million from recent acquisitions. Excluding the acquisitions, the net increase in domestic sales was \$9.9 million, or 1.1%. International sales increased \$85.2 million, or 22.3%, to \$467.2 million, as compared to \$382.0 million in the prior year period. This includes an increase of \$87.5 million from the recent acquisitions and a decrease of \$16.7 million related to the unfavorable impact of exchange rates. Excluding acquisitions and foreign exchange, the net sales increase in international sales was \$14.4 million, or 3.8%. The increase in international revenues reflects strengthening of sales in the Asian and Latin American markets.
- Net sales of the Food Processing Equipment Group increased by \$9.0 million, or 3.3%, to \$279.5 million in the nine months period ended September 28, 2019, as compared to \$270.5 million in the prior year period. Net sales from the acquisitions of Hinds-Bock, Ve.Ma.C, M-TEK and Pacproinc, which were acquired on February 16, 2018, April 3, 2018, October 1, 2018, and July 15, 2019, respectively, accounted for an increase of \$21.4 million during the nine months period ended September 28, 2019. Excluding the impact of acquisitions, net sales of the Food Processing Equipment Group decreased \$12.4 million, or 4.6%. Excluding the impact of foreign exchange and acquisitions, net sales decreased \$8.1 million or 3.0% at the Food Processing Equipment Group. Domestically, the company realized a sales decrease of \$10.5 million, or 5.7%, to \$173.0 million, as compared to \$183.5 million in the prior year period. This includes an increase of \$16.3 million from recent acquisitions. Excluding the acquisitions, the net decrease in domestic sales was \$26.8 million, or 14.6%. International sales increased \$19.5 million, or 22.4%, to \$106.5 million, as compared to \$87.0 million in the prior year period. This includes an increase of \$5.1 million from recent acquisitions and a decrease of \$4.3 million related to the unfavorable impact of exchange rates. Excluding acquisitions and foreign exchange, the net sales increase in international sales was \$18.7 million, or 21.5%.
- Net sales of the Residential Kitchen Equipment Group decreased by \$29.7 million or 6.6%, to \$420.5 million in the nine months period ended September 28, 2019, as compared to \$450.2 million in the prior year period. Excluding the impact of foreign exchange and closure of a non-core business, net sales decreased \$11.4 million, or 2.6% at the Residential Kitchen Equipment Group. Domestically, the company realized a sales decrease of \$9.4 million, or 3.4%, to \$270.7 million, as compared to \$280.1 million in the prior year period. Excluding the impact of closure of non-core business, the net decrease in domestic sales was \$8.0 million, or 2.9%. International sales decreased \$20.3 million or 11.9% to \$149.8 million, as compared to \$170.1 million in the prior year quarter. This includes an unfavorable impact of exchange rates of \$10.0 million. Excluding foreign exchange and closure of a non-core business, the net sales decrease in international sales was \$3.4 million, or 2.1%.

GROSS PROFIT. Gross profit increased to \$813.8 million in the nine months period ended September 28, 2019 from \$723.6 million in the prior year period, primarily reflecting the impact of increased sales from acquisitions, offset by the unfavorable impact of foreign exchange rates of \$10.4 million. The gross margin rate was 36.8% in the nine months period ended September 29, 2018 as compared to 37.5% in the current year period.

- Gross profit at the Commercial Foodservice Equipment Group increased by \$78.1 million, or 16.4%, to \$553.6 million in the nine months period ended September 28, 2019, as compared to \$475.5 million in the prior year period. Gross profit from the acquisitions accounted for \$74.0 million of the increase in gross profit during the period. Excluding the recent acquisitions, gross profit increased by \$4.1 million on higher sales volumes and improving margins from integrating acquisitions. The impact of foreign exchange rates decreased gross profit by approximately \$5.1 million. The gross margin rate decreased to 37.6%, as compared to 38.2% in the prior year period. The gross margin rate excluding acquisitions and the impact of foreign exchange was 38.2%.
- Gross profit at the Food Processing Equipment Group increased by \$6.7 million, or 7.3%, to \$98.5 million in the nine months period ended September 28, 2019, as compared to \$91.8 million in the prior year period. Gross profit from the acquisitions increased gross profit by \$10.2 million. Excluding the recent acquisitions, gross profit decreased by approximately \$3.5 million. The impact of foreign exchange rates decreased gross profit by approximately \$1.8 million. The gross profit margin rate increased to 35.2%, as compared to 33.9% in the prior year period, reflecting a favorable product mix. The gross margin rate excluding acquisitions and the impact of foreign exchange was 34.3%.
- Gross profit at the Residential Kitchen Equipment Group increased by \$3.6 million, or 2.3%, to \$163.6 million in the nine months period ended September 28, 2019, as compared to \$160.0 million in the prior year period. The impact of foreign exchange rates decreased gross profit by approximately \$3.5 million. The gross margin rate increased to 38.9%, as compared to 35.5% in the prior year period, primarily related to the benefit of the disposition of the non-core business.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Combined selling, general and administrative expenses increased from \$399.3 million in the nine months period ended September 29, 2018 to \$445.0 million in the nine months period ended September 28, 2019. As a percentage of net sales, selling, general, and administrative expenses were 20.3% in the nine months period ended September 29, 2018, as compared to 20.5% in the nine months period ended September 28, 2019.

Selling, general and administrative expenses reflect increased costs of \$53.2 million associated with acquisitions, including \$18.1 million of intangible amortization expense. Selling, general and administrative expenses increased by \$10.0 million related to transition costs with the former Chairman and CEO upon his retirement in February 2019. The increase was offset by the favorable impact from foreign exchange rates of \$6.9 million, \$10.2 million related to lower compensation costs and \$2.0 million related to lower non-cash share based compensation.

RESTRUCTURING EXPENSES. Restructuring expenses decreased \$11.4 million from \$18.2 million in the nine months period ended September 29, 2018 to \$6.8 million in the nine months period ended September 28, 2019. Restructuring expenses related primarily to headcount reductions and cost reduction initiatives related to facility consolidations at the Commercial Foodservice Equipment Group and Residential Kitchen Equipment Group. In the nine months period ended September 29, 2018, restructuring charges related primarily to exiting operations of a non-core business in the Residential Kitchen Equipment Group, as well as headcount reductions at the Commercial Foodservice Equipment Group and additional cost reduction initiatives related to the AGA Group.

NON-OPERATING EXPENSES. Interest and deferred financing amortization costs were \$63.3 million in the nine months period ended September 28, 2019, as compared to \$38.4 million in the prior year period, reflecting increased interest due to higher interest rates and higher debt balances related to the funding of acquisitions.

INCOME TAXES. A tax provision of \$78.2 million, at an effective rate of 24.3%, was recorded during the nine months period ended September 28, 2019, as compared to \$73.0 million at an effective rate of 24.7%, in the prior year period. The effective rates in 2019 and 2018 are higher than the federal tax rate of 21% primarily due to state taxes and foreign tax rate differentials.

Financial Condition and Liquidity

During the nine months ended September 28, 2019, cash and cash equivalents increased by \$15.5 million to \$87.2 million at September 28, 2019 from \$71.7 million at December 29, 2018. Net borrowings increased from \$1.9 billion to \$2.0 billion at December 29, 2018 and September 28, 2019, respectively, as the cost of acquisitions exceeded cash provided by operations.

OPERATING ACTIVITIES. Net cash provided by operating activities was \$229.7 million for the nine months ended September 28, 2019, compared to \$252.0 million for the nine months ended September 29, 2018.

Improved earnings have generated increased cash flows over the prior year period. The combined impact of timing of payments made and collections received have not materially impacted the change in cash flows between the periods. However, significant increases in inventory in the first half of the year have negatively impacted cash flows during the nine month ended September 28, 2019. The increases are attributable to various factors including purchasing in advance of potential price increases expected from tariffs and building to mitigate risk around order fulfillment rates. Inventory levels also have been impacted by lower than anticipated sales levels.

INVESTING ACTIVITIES. During the nine months ended September 28, 2019, net cash used for investing activities amounted to \$272.8 million. This included \$239.0 million for the 2019 acquisitions of EVO, Cooking Solutions Group, Powerhouse, Ss Brewtech and Pacproinc. The decrease over the prior year period was primarily attributable to the 2018 purchase of Taylor for approximately \$1.0 billion.

FINANCING ACTIVITIES. Net cash flows provided by financing activities were \$61.6 million during the nine months ended September 28, 2019. The company's borrowing activities during the quarter included \$69.3 million of net proceeds under its \$3.0 billion Credit Facility. Additionally, the company used \$6.1 million to repurchase 50,848 shares of Middleby common stock that were surrendered to the company for withholding taxes related to restricted stock vestings during the year. During 2018, financing cash flows were impacted by the purchase of Taylor, which resulted in approximately \$1.0 billion of borrowings.

At September 28, 2019, the company was in compliance with all covenants pursuant to its borrowing agreements. The company believes that its current capital resources, including cash and cash equivalents, cash generated from operations, funds available from its Credit Facility and access to the credit and capital markets will be sufficient to finance its operations, debt service obligations, capital expenditures, acquisitions, product development and integration expenditures for the foreseeable future.

Recently Issued Accounting Standards

See Part 1, Notes to Condensed Consolidated Financial Statements, Note 4 - Recent Issued Accounting Standards.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations are based upon the company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the company to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses as well as related disclosures. On an ongoing basis, the company evaluates its estimates and judgments based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions and any such differences could be material to our consolidated financial statements. There have been no changes in our critical accounting policies, which include revenue recognition, inventories, goodwill and other intangibles, pensions benefits, and income taxes, as discussed in our Annual Report on Form 10-K for the year ended December 29, 2018 (our "2018 Annual Report on Form 10-K") other than those described below.

During the nine months period ended September 28, 2019, the company adopted ASC 842, "Leases". See Part 1, Notes to Condensed Consolidated Financial Statements, Note 14 - Leases for additional information on the required disclosures related to the impact of adopting this guidance.

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 our Fiscal Third Quarter	Variable Rate Debt
2020	\$ 3,331
2021	1,955,333
2022	352
2023	102
2024 and thereafter	113
	<u>\$ 1,959,231</u>

On July 28, 2016, the company entered into an amended and restated five-year \$2.5 billion multi-currency senior secured revolving credit agreement (the "Credit Facility"). On December 18, 2018, the company entered into an amendment to the Credit Facility, increasing the revolving commitments under the Credit Facility by \$500.0 million to a total of \$3.0 billion. As of September 28, 2019, the company had \$2.0 billion of borrowings outstanding under the Credit Facility, including \$1.9 billion of borrowings in U.S. Dollars and \$42.4 million of borrowings denominated in Euro. The company also had \$11.4 million in outstanding letters of credit as of September 28, 2019, which reduces the borrowing availability under the Credit Facility. Remaining borrowing availability under this facility was \$1.0 billion at September 28, 2019.

At September 28, 2019, 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 on the debt under the Credit Facility was equal to 3.66% 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 28, 2019.

In addition, the company has other international credit facilities to fund working capital needs outside the United States and the United Kingdom. At September 28, 2019, these foreign credit facilities amounted to \$5.4 million in U.S. Dollars with a weighted average per annum interest rate of approximately 5.42%.

The company believes that its current capital resources, including cash and cash equivalents, cash expected to be generated from operations, funds available from its current lenders and access to the credit and capital markets will be sufficient to finance its operations, debt service obligations, capital expenditures, product development and expenditures for the foreseeable future.

The company uses floating-to-fixed interest rate swap agreements to hedge variable interest rate risk associated with the revolving credit line. At September 28, 2019, the company had outstanding floating-to-fixed interest rate swaps totaling \$51.0 million notional amount carrying an average interest rate of 1.27% maturing in less than 12 months and \$948.0 million notional amount carrying an average interest rate of 2.22% that mature in more than 12 months but less than 72 months.

The Credit Facility matures on July 28, 2021, and accordingly has been classified as a long-term liability on the condensed consolidated balance sheet.

The terms of the Credit Facility 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 and (ii) a maximum 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. 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 28, 2019, the company was in compliance with all covenants pursuant to its borrowing agreements.

Financing Derivative Instruments

The company has entered into interest rate swaps to fix the interest rate applicable to certain of its variable-rate debt. The agreements swap one-month LIBOR for fixed rates. The company has designated these swaps as cash flow hedges and all changes in fair value of the swaps are recognized in accumulated other comprehensive income. As of September 28, 2019, the fair value of these instruments was a liability of \$29.7 million. The change in fair value of these swap agreements in the first nine months of 2019 was a loss of \$29.1 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.

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 loss of \$0.1 million at the end of the third quarter of 2019.

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 28, 2019, 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 28, 2019, 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 28, 2019, except as follows:

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

c) Issuer Purchases of Equity Securities

	Total Number of Shares Purchased	Average Price Paid per Share	Total Number of Shares Purchased as Part of Publicly Announced Plan or Program	Maximum Number of Shares that May Yet be Purchased Under the Plan or Program (1)
June 30 to July 27, 2019	—	\$ —	—	2,373,800
July 28 to August 24, 2019	—	—	—	2,373,800
August 25 to September 28, 2019	—	—	—	2,373,800
Quarter ended September 28, 2019	—	\$ —	—	2,373,800

- (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 28, 2019, the total number of shares authorized for repurchase under the program is 2,500,000. As of September 28, 2019, 126,200 shares had been purchased under the 2017 stock repurchase program.

Item 6. Exhibits

Exhibits – The following exhibits are filed herewith:

- 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 28, 2019, filed on November 7, 2019, 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 7, 2019

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 7, 2019

/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 7, 2019

/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 28, 2019 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 7, 2019

/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 28, 2019 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 7, 2019

/s/ Bryan E. Mittelman

Bryan E. Mittelman