UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

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

For the Fiscal Year Ended December 31, 2016
or
☐ Transition Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Commission File No. 1-9973

THE MIDDLEBY CORPORATION
(Exact name of Registrant as specified in its charter)

Delaware	**36-3352497**
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
1400 Toastmaster Drive, Elgin, Illinois	**60120**
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: **847-741-3300**

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

Title of each class	Name of each exchange on which registered
Common stock, par value $0.01 per share	**The NASDAQ Stock Market LLC**

Securities registered pursuant to Section 12(g) of the Act: **None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes ☐ No ☒

Note – Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Exchange Act from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of Registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☐

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

Large accelerated filer ☒ Accelerated filer ☐ Non-accelerated filer ☐ Smaller reporting company ☐

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

The aggregate market value of the voting stock held by nonaffiliates of the Registrant as of June 30, 2016 was approximately $6,496,544,653.

The number of shares outstanding of the Registrant's class of common stock, as of February 27, 2017, was 57,539,766 shares.

Documents Incorporated by Reference

Part III of Form 10-K incorporates by reference the Registrant's definitive proxy statement to be filed pursuant to Regulation 14A in connection with the 2017 annual meeting of stockholders.

THE MIDDLEBY CORPORATION AND SUBSIDIARIES
DECEMBER 31, 2016
FORM 10-K ANNUAL REPORT

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PART I

Item 1. Business

General

The Middleby Corporation ("Middleby" or the "company"), through its operating subsidiary Middleby Marshall Inc. ("Middleby Marshall") and its subsidiaries, is a leader in the design, manufacture, marketing, distribution, and service of a broad line of (i) foodservice equipment used in all types of commercial restaurants and institutional kitchens, (ii) food preparation, cooking, baking, chilling and packaging equipment for food processing operations, and (iii) premium kitchen equipment including ranges, ovens, refrigerators, ventilation and dishwashers primarily used in the residential market.

Founded in 1888 as a manufacturer of baking ovens, Middleby Marshall Oven Company was acquired in 1983 by TMC Industries Ltd., a publicly traded company that changed its name in 1985 to The Middleby Corporation. The company has established itself as a leading provider of (i) commercial restaurant equipment, (ii) food processing equipment and (iii) residential kitchen equipment as a result of its acquisition of industry leading brands and through the introduction of innovative products within each of these segments.

The company's annual reports on Form 10-K, including this Form 10-K, as well as the company's quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to such reports are available, free of charge, on the company's internet website, www.middleby.com. These reports are available as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission ("SEC").

Business Segments and Products

The company conducts its business through three principal business segments: the Commercial Foodservice Equipment Group, the Food Processing Equipment Group and the Residential Kitchen Equipment Group. See Note 9 to the Consolidated Financial Statements for further information on the company's business segments.

Commercial Foodservice Equipment Group

The Commercial Foodservice Equipment Group has a broad portfolio of foodservice equipment, which enable it to serve virtually any cooking or warming application within a commercial kitchen or foodservice operation. This cooking and warming equipment is used across all types of foodservice operations, including quick-service restaurants, full-service restaurants, convenience stores, retail outlets, hotels and other institutions.

This commercial foodservice equipment is marketed under a portfolio of forty-one brands, including Anets®, Beech®, Blodgett®, Blodgett Combi®, Blodgett Range®, Bloomfield®, Britannia®, CTX®, Carter-Hoffmann®, Celfrost®, Concordia®, CookTek®, Desmon®, Doyon®, Eswood®, Follett®, FriFri®, Giga®, Goldstein®, Holman®, Houno®, IMC®, Induc®, Jade®, Lang®, Lincat®, MagiKitch'n®, Market Forge®, Marsal®, Middleby Marshall®, MPC®, Nieco®, Nu-Vu®, PerfectFry®, Pitco Frialator®, Southbend®, Star®, Toastmaster®, TurboChef®, Wells® and Wunder-Bar®.

The products offered by 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, warming equipment, heated cabinets, charbroilers, ventless cooking systems, kitchen ventilation, induction cooking equipment, countertop cooking equipment, toasters, professional refrigerators, blast chillers, coldrooms, ice machines, freezers and beverage dispensing equipment.

Food Processing Equipment Group

The Food Processing Equipment Group offers a broad portfolio of processing solutions for customers producing pre-cooked meat products, such as hot dogs, dinner sausages, poultry and lunchmeats and baked goods such as muffins, cookies and bread. Through its broad line of products, the company is able to deliver a wide array of cooking solutions to service a variety of food processing requirements demanded by its customers. The company can offer highly integrated solutions that provide a food processing operation a uniquely integrated solution providing for the highest level of food quality, product consistency, and reduced operating costs resulting from increased product yields, increased capacity, greater throughput and reduced labor costs though automation.

This food processing equipment is marketed under a portfolio of thirteen brands, including Alkar®, Armor Inox®, Auto-Bake®, Baker Thermal Solutions®, Cozzini®, Danfotech®, Drake®, Maurer-Atmos®, MP Equipment®, RapidPak®, Spooner Vicars®, Stewart Systems® and Thurne®.

The products offered by this group include a wide array of cooking and baking solutions, including batch ovens, baking ovens, proofing ovens, conveyor ovens, continuous processing ovens, frying systems and automated thermal processing systems. The company also provides a comprehensive portfolio of complementary food preparation equipment such as grinders, slicers, emulsifiers, mixers, blenders, battering equipment, breading equipment, water cutting systems, food presses, and forming equipment, as well as a variety of food safety, food handling, freezing and packaging equipment. This portfolio of equipment can be integrated to provide customers a highly efficient and customized solution.

Residential Kitchen Equipment Group

The Residential Kitchen Equipment Group manufactures, sells and distributes kitchen equipment for the residential market. Principal product lines of this group are ranges, cookers, stoves, ovens, refrigerators, dishwashers, microwaves, cooktops, refrigerators, wine coolers, ice machines, dishwashers, ventilation equipment and outdoor equipment. These products are sold and marketed under a portfolio of twenty brands, including AGA®, AGA Cookshop®, Brigade®, Falcon®, Fired Earth®, Grange®, Heartland®, La Cornue®, Leisure Sinks®, Lynx®, Marvel®, Mercury®, Rangemaster®, Rayburn®, Redfyre®, Sedona®, Stanley®, TurboChef®, U-Line® and Viking®.

Acquisition Strategy

The company has pursued a strategy to acquire and assemble a leading portfolio of brands and technologies for each of its three business segments. Over the past two years, the company has completed nine acquisitions to add to its portfolio of brands and technologies of the Commercial Foodservice Equipment Group, the Food Processing Equipment Group and the Residential Kitchen Equipment Group. These acquisitions have added twenty-two brands to the Middleby portfolio and positioned the company as a leading provider of equipment in each respective industry.

Commercial Foodservice Equipment Group

- January 2015: The company acquired all of the capital stock of Desmon Food Service Equipment Company ("Desmon"), a leading manufacturer of blast chillers and refrigeration for the commercial foodservice industry, located in Nusco, Italy, for a purchase price of approximately $13.5 million.

- January 2015: The company acquired substantially all of the assets of J. Goldstein & Co. Pty. Ltd. ("Goldstein") and Eswood Australia Pty. Ltd. ("Eswood" and together with Goldstein, "Goldstein Eswood"). Goldstein is a leading manufacturer of cooking equipment including ranges, ovens, griddles, fryers and warning equipment and Eswood is a leading manufacturer of dishwashing equipment, both for the commercial foodservice in industry, located in Smithfield, Australia, for a purchase price of approximately $27.4 million.

- February 2015: The company acquired certain assets of Marsal & Sons, Inc ("Marsal"), a leading manufacturer of deck ovens for the commercial foodservice industry, for a purchase price of approximately $5.5 million.

- May 2015: The company acquired certain assets of the Induc Commercial Electronics Co. Ltd. ("Induc"), a leading manufacturer of induction cooking equipment for the commercial foodservice industry, located in Qingdao, China, for a purchase price of approximately $10.6 million.

- May 2016: The company acquired substantially all of the assets of Follett Corporation ("Follett"), a leading manufacturer of ice machines, ice and water dispensing equipment, ice storage and transport products and medical grade refrigeration products for the foodservice and healthcare industries, for a purchase price of approximately $207.7 million.

Food Processing Equipment Group

- April 2015: The company acquired certain assets of the High Speed Slicing business unit of Marel ("Thurne"), a leading manufacturer of slicing equipment for the food processing industry, located in Norwich, United Kingdom, for a purchase price of approximately $12.6 million.

- May 2016: The company acquired certain assets of Emico Automated Bakery Equipment Solutions ("Emico"), a manufacturer of high speed dough make-up bakery equipment for the food processing industry, for a purchase price of approximately $1.0 million.

Residential Kitchen Equipment Group

- September 2015: The company acquired all of the capital stock of AGA Rangemaster Group plc ("AGA") a leading manufacturer of residential kitchen equipment including cookers, ranges, ovens and refrigeration located in Leamington Spa, the United Kingdom, for a purchase price of approximately $201.0 million.

- December 2015: The company acquired all of the capital stock of Lynx Grills, Inc. ("Lynx"), a leading manufacturer of premium residential outdoor equipment for a purchase price of approximately $83.8 million.

The Customers and Market

Commercial Foodservice Equipment Industry

The company's end-user customers include: (i) fast food, fast casual and quick-service restaurants, (ii) full-service restaurants, including casual-theme restaurants, (iii) retail outlets, such as convenience stores, supermarkets and department stores and (iv) public and private institutions, such as hotels, resorts, schools, hospitals, long-term care facilities, correctional facilities, stadiums, airports, corporate cafeterias, military facilities and government agencies. The company's domestic sales are primarily through independent dealers and distributors and are marketed by the company's sales personnel and network of independent manufacturers' representatives. Many of the dealers in the U.S. belong to buying groups that negotiate sales terms with the company. Certain large multi-national restaurant and hotel chain customers have purchasing organizations that manage product procurement for their systems. Included in these customers are several large multi-national restaurant chains, which account for a meaningful portion of the company's business, although no single customer accounts for more than 10% of net sales.

Over the past several decades, the commercial foodservice equipment industry has enjoyed steady growth in the United States due to the development of new quick-service and casual-theme restaurant chain concepts, the expansion of foodservice into nontraditional locations such as convenience stores and store equipment modernization driven by efforts to improve efficiencies within foodservice operations. In the international markets, foodservice equipment manufacturers have been experiencing stronger growth than the U.S. market due to expanding international economies and increased opportunity for expansion by U.S. chains into developing regions.

The company believes that the worldwide commercial foodservice equipment market has sales in excess of $20.0 billion. The cooking and warming equipment segment of this market is estimated by management to exceed $1.5 billion in North America and $3.0 billion worldwide. The company believes that continuing growth in demand for foodservice equipment will result from the development of new restaurant concepts in the U.S. and the expansion of U.S. and foreign chains into international markets, the replacement and upgrade of existing equipment and new equipment requirements resulting from menu changes.

Food Processing Equipment Industry

The company's customers include a diversified base of leading food processors. Customers include several large international food processing companies, which account for a significant portion of the revenues of this business segment, although none of which is greater than 10% of net sales. A large portion of the company's revenues have been generated from producers of pre-cooked meat products such as hot dogs, dinner sausages, poultry, and lunchmeats and producers of baked goods such as muffins, cookies and bread; however, the company believes that it can leverage its expertise and product development capabilities in thermal processing to organically grow into new end markets.

Food processing has quickly become a highly competitive landscape dominated by a few large conglomerates that possess a variety of food brands. The consolidation of food processing plants associated with industry consolidation drives a need for more flexible and efficient equipment that is capable of processing large volumes in quicker cycle times. In recent years, food processors have had to conform to the demands of “big-box” retailers and the restaurant industry, including, most importantly, greater product consistency and exact package weights. Food processors are beginning to realize that their old equipment is no longer capable of efficiently producing adequate uniformity in the large product volumes required, and they are turning to equipment manufacturers that offer product consistency, innovative packaging designs and other solutions. To protect their own brands and reputations, retailers and large restaurant chains are also dictating food safety standards that are often more strict than government regulations.

A number of factors, including raw material prices, labor and health care costs, are driving food processors to focus on ways to improve their generally thin profitability margins. In order to increase the profitability and efficiency in processing plants, food processors pay increasingly more attention to the performance of their machinery and the flexibility in the functionality of the equipment. Food processors are continuously looking for ways to make their plants safer and reduce labor-intensive activities. Food processors have begun to recognize the value of new technology as an important vehicle to drive productivity and profitability in their plants. Due to customer requirements, food processors are expected to continue to demand new and innovative equipment that addresses food safety, food quality, automation and flexibility.

Improving living standards in developing countries is spurring increased worldwide demand for pre-cooked and convenience food products. As industrializing countries create more jobs, consumers in these countries will have the means to buy pre-cooked food products. In industrialized regions, such as Western Europe and the U.S., consumers are demanding more pre-cooked and convenience food products, such as deli tray variety packs, frozen food products and ready-to-eat varieties of ethnic foods.

The global food processing equipment industry is highly fragmented, large and growing. The company estimates demand for food processing equipment is approximately $5.0 billion in North America and $40.0 billion worldwide. The company's product offerings compete in a subsegment of the total industry, and the relevant market size for its products is estimated by management to exceed $2.0 billion in North America and $4.0 billion worldwide.

Residential Kitchen Equipment Industry

The company's end-user customers include the high-end residential kitchens. The premium segment of the residential kitchen equipment industry is estimated to be in excess of $1.0 billion annually in North America. This segment has grown over the past several decades after the original introduction premium cooking range. Viking was the first manufacturer to introduce the premium cooking equipment to the North American market, providing equipment that was comparable to commercial grade ranges and ovens for home chefs and culinarians. The market potential for such equipment has continued to broaden due to an increase in interest from the consumer to have high-end, luxury appliances in their home. Other important factors which affect the market size and growth include the level of new home starts, home remodels and general macro-economic factors. Macro-economic factors such as GDP growth, employment rates, inflation and consumer confidence, which impact the overall economy, impact the residential kitchen equipment industry and cause greater variability in the revenues at this segment than the other business segments the company operates in.

Backlog

Commercial Foodservice Equipment Group

The backlog of orders for the Commercial Foodservice Equipment Group was $77.7 million at December 31, 2016, all of which is expected to be filled during 2017. The acquired Follett business accounted for $12.9 million of the backlog. The Commercial Foodservice Equipment Group's backlog was $68.6 million at January 2, 2016. The backlog is not necessarily indicative of the level of business expected for the year, as there is generally a short time between order receipt and shipment for the majority of this segment's products.

Food Processing Equipment Group

The backlog of orders for the Food Processing Equipment Group was $115.9 million at December 31, 2016, all of which is expected to be filled during 2017. The Food Processing Equipment Group's backlog was $108.5 million at January 2, 2016.

Residential Kitchen Equipment Group

The backlog of orders for the Residential Kitchen Equipment Group was $44.2 million at December 31, 2016, all of which is expected to be filled during 2017. The Residential Kitchen Equipment Group's backlog was $56.8 million at January 2, 2016. The backlog is not necessarily indicative of the level of business expected for the year, as there is generally a short time between order receipt and shipment for the majority of this segment's products.

Marketing and Distribution

Commercial Foodservice Equipment Group

Middleby's products and services are marketed in the U.S. and in over 100 countries through a combination of the company's sales and marketing personnel, together with an extensive network of independent dealers, distributors, consultants, sales representatives and agents.

In the United States, the company distributes its products to independent end-users primarily through a network of non-exclusive dealers nationwide, who are supported by manufacturers' marketing representatives. Sales are made direct to certain large restaurant chains that have established their own procurement and distribution organization for their franchise system. The company's relationships with major restaurant chains are primarily handled through an integrated effort of top-level executive and sales management at the corporate and business division levels to best serve each customer's needs. International sales are primarily made through a network of company owned and local independent distributors and dealers.

Food Processing Equipment Group

The company maintains a direct sales force to market the brands and maintain direct relationships with each of its customers. In North America, the company employs regional sales managers, each with responsibility for a group of customers and a particular region. This sales force is complimented with involvement of executive management to maintain relationships with customer executives and facilitate coordination amongst the brands for the key global accounts. Internationally, the company maintains sales and distribution offices in Brazil, China, Denmark, Dubai, France, Mexico and Russia along with global sales managers supported by a network of independent sales representatives.

The company’s sale process is highly consultative due to the highly technical nature of the equipment. During a typical sales process, a salesperson makes several visits to the customer’s facility to conceptually discuss the production requirements, footprint and configuration of the proposed equipment. The company employs a technically proficient sales force, many of whom have previous technical experience with the company as well as education backgrounds in food science.

Residential Kitchen Equipment Group

The company’s products are marketed through a network of distributors, dealers, designers, and home builders to the residential customers. The company markets and sells its products to these channels through a company-employed sales force. The company’s products are distributed through a combination of an independent network of distributors and its wholly owned distribution operations. The company's wholly owned distribution operations were established in connection with the Viking and related Viking Distributors' acquisitions and include two primary customer support centers and regional warehouse and logistic operations, which stock products and service parts for the respective region.

Marketing support is provided to and coordinated with its network of dealers, designers, and home builders sales partners to allow for coordinated efforts to market jointly to the end-user customers. The company in certain cases offers incentive based financial programs to invest in local marketing activities with these sales partners.

Services and Product Warranty

The company is an industry leader in equipment installation programs and after-sales support and service. The company provides a warranty on its products typically for a one year period and in certain instances greater periods. The emphasis on global service increases the likelihood of repeat business and enhances Middleby's image as a partner and provider of quality products and services.

Commercial Foodservice Equipment Group

The company's domestic service network consists of over 100 authorized service parts distributors and 3,000 independent certified technicians who have been formally trained and certified by the company through its factory training school and on-site installation training programs. Technicians work through service parts distributors, which are required to provide around-the-clock service. The company provides real-time technical support to the technicians in the field through factory-based technical service engineers. The company maintains sufficient service parts inventory to ensure short lead times for service calls.

It is critical to major foodservice chains that equipment providers be capable of supporting equipment on a worldwide basis. The company's international service network covers over 100 countries with thousands of service technicians trained in the installation and service of the company's products and supported by internationally-based service managers along with the factory-based technical service engineers.

Food Processing Equipment Group

The company maintains a technical service group of employees that oversees and performs installation and startup of equipment and completes warranty and repair work. This technical service group provides services for customers both domestically and internationally. Service technicians are trained regularly on new equipment to ensure the customer receives a high level of customer service. From time to time the company utilizes trained third party technicians supervised by company employees to supplement company employees on large projects.

Residential Kitchen Equipment Group

The company maintains a network of independent authorized service agents throughout North America. Authorized service agents are supported and trained by regional factory-support centers of the company. Trained technical support personnel are available to support independent service agents with technical information and assist in repair issues. The factory-support centers also dispatch service technicians to the customer and provide follow-up and monitoring to ensure field issues are resolved. The company's independent service agents maintain a stock of factory-supplied parts to allow for a high first-call completion rate for service and warranty repairs. The company maintains a substantial amount of service parts at each of its manufacturing operations and at regional service parts depots to provide for quick ship of parts to service agents and end-user customers when necessary.

Internationally, the company has a network of company owned and independent distributors that provide sales and technical service support in their respective markets. These distributors are required to have a team of factory-trained service technicians and maintain a required stock of service parts to support the equipment in the market. The factory supports the international distributors with technical trainers which travel to the various markets to provide on-hands training and monitoring of the distributor service operations.

Competition

The commercial foodservice, food processing and residential kitchen equipment industries are highly competitive and fragmented. Within a given product line the company may compete with a variety of companies, including companies that manufacture a broad line of products and those that specialize in a particular product category. Competition is based upon many factors, including brand recognition, product features, reliability, quality, price, delivery lead times, serviceability and after-sale service. The company believes that its ability to compete depends on strong brand equity, exceptional product performance, short lead-times and timely delivery, competitive pricing and superior customer service support. In the international markets, the company competes with U.S. manufacturers and numerous global and local competitors.

The company believes that it is one of the largest multiple-line manufacturers of commercial kitchen, food processing and residential kitchen equipment in the U.S. and worldwide although some of its competitors are units of operations that are larger than the company and possess greater financial and personnel resources. Among the company's major competitors to the Commercial Foodservice Equipment Group are: Manitowoc Company, Inc.; Vulcan-Hart and Hobart Corporation, subsidiaries of Illinois Tool Works Inc.; Electrolux; Groen, a subsidiary of Dover Corporation; Rational AG; and the Ali Group. Major competitors to the Food Processing Equipment Group include AMF Bakery Systems, The GEA Group, JBT Technologies, Marel, and Provisur. The residential kitchen appliance sector is highly competitive and includes a number of large global competitors including, Whirlpool Corporation, Electrolux, GE Appliances, LG Corporation, Panasonic Corporation and Samsung Group. However, within the premium segment of this kitchen equipment market, there are fewer competitors and the company’s competition includes Wolf and Subzero, subsidiaries of Sub-Zero Group, Inc.; Thermador, Bosch and Gaggenau, subsidiaries of Bosch Siemens; Dacor, subsidiary of Samsung Electronics America; and Miele.

Manufacturing and Quality Control

The company’s manufacturing operations provide for an expertise in the design and production of specific products for each of the three business segments. The company has from time to time either consolidated manufacturing facilities producing similar product or transferred production of certain products to another existing operation with a higher level of expertise or efficiency.

The Commercial Foodservice Equipment Group manufactures its products in fifteen domestic and ten international production facilities. These production facilities are located in Brea, California; Vacaville, California; Windsor, California; Elgin, Illinois; Mundelein, Illinois; Menominee, Michigan; Bow, New Hampshire; Fuquay-Varina, North Carolina; Bethlehem, Pennsylvania; Easton, Pennsylvania; Smithville, Tennessee; Carrollton, Texas; Burlington, Vermont; Essex Junction, Vermont; Redmond, Washington; New South Wales, Australia; Shanghai, China; Randers, Denmark; Nusco, Italy; Scandicci, Italy; Laguna, the Philippines; Wislina, Poland; Lincoln, the United Kingdom; Warwickshire, the United Kingdom and Wrexham, the United Kingdom.

The Food Processing Equipment Group manufactures its products in seven domestic and four international production facilities. These production facilities are located in Gainesville, Georgia; Chicago, Illinois; Algona, Iowa; Clayton, North Carolina; Plano, Texas; Waynesboro, Virginia; Lodi, Wisconsin; Mauron, France; Reichenau, Germany; Bangalore, India and Norwich, the United Kingdom.

The Residential Kitchen Equipment Group manufactures its products in six domestic and nine international production facilities. These production facilities are located in Downey, California; Greenville, Michigan; Greenwood, Mississippi; Brown Deer, Wisconsin; Rosyl St. Pierre, France; Saint Ouen L'aumone, France; Saint Symhorien, France; Waterford, Ireland; Gee Targu Mures, Romania; Coalbrookdale, the United Kingdom; Ketley, the United Kingdom; Leamington Spa, the United Kingdom and Nottingham, the United Kingdom.

Metal fabrication, finishing, sub-assembly and assembly operations are conducted at each manufacturing facility. Equipment installed at individual manufacturing facilities includes numerically controlled turret presses and machine centers, shears, press brakes, welding equipment, polishing equipment, CAD/CAM systems and product testing and quality assurance measurement devices. The company's CAD/CAM systems enable virtual electronic prototypes to be created, reviewed and refined before the first physical prototype is built.

Detailed manufacturing drawings are quickly and accurately derived from the model and passed electronically to manufacturing for programming and optimal parts nesting on various numerically controlled punching cells. The company believes that this integrated product development and manufacturing process is critical to assuring product performance, customer service and competitive pricing.

The company has established comprehensive programs to ensure the quality of products, to analyze potential product failures and to certify vendors for continuous improvement. Products manufactured by the company are tested prior to shipment to ensure compliance with company standards.

Sources of Supply

The company purchases its raw materials and component parts from a number of suppliers. The majority of the company’s material purchases are standard commodity-type materials, such as stainless steel, electrical components and hardware. These materials and parts generally are available in adequate quantities from numerous suppliers. Some component parts are obtained from sole sources of supply. In such instances, management believes it can substitute other suppliers as required. The majority of fabrication is done internally through the use of automated equipment. Certain equipment and accessories are manufactured by other suppliers for sale by the company. The company believes it enjoys good relationships with its suppliers and considers the present sources of supply to be adequate for its present and anticipated future requirements.

Research and Development

The company believes its future success will depend in part on its ability to develop new products and to improve existing products. Much of the company's research and development efforts at the Commercial Foodservice Equipment Group, the Food Processing Equipment Group and the Residential Kitchen Equipment Group are directed to the development and improvement of products designed to reduce cooking and processing time, increase capacity or throughput, reduce energy consumption, minimize labor costs, improve product yield and improve safety, while maintaining consistency and quality of cooking production and food preparation. The company has identified these issues as key concerns for most of its customers. The company often identifies product improvement opportunities by working closely with customers on specific applications. Most research and development activities are performed by the company's technical service and engineering staff located at each manufacturing location. On occasion, the company will contract outside engineering firms to assist with the development of certain technical concepts and applications. See Note 3(o) to the Consolidated Financial Statements for further information on the company's research and development activities.

Trademarks, Patents and Licenses

The company has developed, acquired and assembled a leading portfolio of trademarks and trade names. The company believes that these trademarks and trade names provide for a significant competitive advantage due to a long-standing recognition in the marketplace with customers, restaurant operators, distribution partners, sales and service agents, and foodservice consultants that specify foodservice equipment. The company has historically maintained a high level of market share of products sold with these trademarks and trade names.

The company's leading portfolio of trade names of its Commercial Foodservice Equipment Group include Anets®, Beech®, Blodgett®, Blodgett Combi®, Blodgett Range®, Bloomfield®, Britannia®, CTX®, Carter-Hoffmann®, Celfrost®, Concordia®, CookTek®, Desmon®, Doyon®, Eswood®, Follett®, FriFri®, Giga®, Goldstein®, Holman®, Houno®, IMC®, Induc®, Jade®, Lang®, Lincat®, MagiKitch'n®, Market Forge®, Marsal®, Middleby Marshall®, MPC®, Nieco®, Nu-Vu®, PerfectFry®, Pitco Frialator®, Southbend®, Star®, Toastmaster®, Turbochef®, Wells® and Wunder-Bar®.

The company’s leading portfolio of trade names of its Food Processing Equipment Group include Alkar®, Armor Inox®, Auto-Bake®, Baker Thermal Solutions®, Cozzini®, Danfotech®, Drake®, Maurer-Atmos®, MP Equipment®, RapidPak®, Spooner Vicars®, Stewart Systems® and Thurne®.

The company’s leading portfolio of trade names of its Residential Kitchen Equipment Group include AGA®, AGA Cookshop®, Brigade®, Falcon®, Fired Earth®, Grange®, Heartland®, La Cornue®, Leisure Sinks®, Lynx®, Marvel®, Mercury®, Rangemaster®, Rayburn®, RedFyre®, Sedona®, Stanley®, ®TurboChef®, U-Line® and Viking®.

The company holds a broad portfolio of patents and licenses covering technology and applications related to various products, equipment and systems. Management believes the expiration of any one of these patents would not have a material adverse effect on the overall operations or profitability of the company.

Employees

Commercial Foodservice Equipment Group

As of December 31, 2016, 3,886 persons were employed within the Commercial Foodservice Equipment Group. Of this amount, 1,577 were management, administrative, sales, engineering and supervisory personnel; 1,815 were hourly production non-union workers; and 494 were hourly production union members. Included in these totals were 1,486 individuals employed outside of the United States, of which 773 were management, sales, administrative and engineering personnel, 638 were hourly production non-union workers and 75 were hourly production union workers, who participate in an employee cooperative. At its Windsor, California facility, the company has a union contract with the Sheet Metal Workers International Association that expires on December 31, 2020. At its Elgin, Illinois facility, the company has a union contract with the International Brotherhood of Teamsters that expires on July 31, 2017. At its Easton, Pennsylvania facility, the company has a union contract with the United Steel, Paper and Forestry, Rubber, Manufacturing, Energy, Allied Industrial and Service Workers International Union that expires on May 4, 2019. The company also has a union workforce at its manufacturing facility in the Philippines, under a contract that expires on June 30, 2021. Management believes that the relationships between employees, unions and management are good.

Food Processing Equipment Group

As of December 31, 2016, 1,129 persons were employed within the Food Processing Equipment Group. Of this amount, 524 were management, administrative, sales, engineering and supervisory personnel; 465 were hourly production non-union workers; and 140 were hourly production union members. Included in these totals were 410 individuals employed outside of the United States, of which 225 were management, sales, administrative and engineering personnel and 185 were hourly production non-union workers. At its Lodi, Wisconsin facility, the company has a contract with the International Association of Bridge, Structural, Ornamental and Reinforcing Ironworkers that expires on December 31, 2018. At its Algona, Iowa facility, the company has a union contract with the United Food and Commercial Workers that expires on December 31, 2018. Management believes that the relationships between employees, unions and management are good.

Residential Kitchen Equipment Group

As of December 31, 2016, 2,981 persons were employed within the Residential Kitchen Equipment Group. Of this amount, 1,443 were management, administrative, sales, engineering and supervisory personnel and 1,538 were hourly production workers. Included in these totals were 1,882 individuals employed outside of the United States, of which 1,025 were management, sales, administrative and engineering personnel and 857 were hourly non-union production workers. Management believes that the relationships between employees and management are good.

Corporate

As of December 31, 2016, 30 persons were employed at the corporate office.

Seasonality

The company's revenues at the Commercial Foodservice Equipment Group historically have been slightly stronger in the second and third quarters due to increased purchases from customers involved with the catering business and institutional customers, particularly schools, during the summer months. Revenues at the Residential Kitchen Equipment Group are historically stronger in the second quarters due to increased purchases of outdoor cooking equipment and greater new home construction and remodels during the summer months.

Item 1A. Risk Factors

The company's business, results of operations, cash flows and financial condition are subject to various risks, including, but not limited to those set forth below. If any of the following risks actually occurs, the company's business, results of operations, cash flows and financial condition could be materially adversely affected. These risk factors should be carefully considered together with the other information in this Annual Report on Form 10-K, including the risks and uncertainties described under the heading "Special Note Regarding Forward-Looking Statements".

Economic conditions may cause a decline in business and consumer spending which could adversely affect the company's business and financial performance.

The company's operating results are impacted by the health of the North American, European, Asian and Latin American economies. The company's business and financial performance, including collection of its accounts receivable, may be adversely affected by the current and future economic conditions that caused, and may cause in the future, a decline in business and consumer spending, a reduction in the availability of credit and decreased growth by its existing customers, resulting in customers electing to delay the replacement of aging equipment. Higher energy costs, rising interest rates, weakness in the residential construction, housing and home improvement markets, financial market volatility, recession and acts of terrorism may also adversely affect the company's business and financial performance. Additionally, the company may experience difficulties in scaling its operations due to economic pressures in the U.S. and International markets.

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

The company now has and may continue to have a significant amount of indebtedness. At December 31, 2016, the company had $732.1 million of borrowings and $10.2 million in letters of credit outstanding. To the extent the company requires additional capital resources, there can be no assurance that such funds will be available on favorable terms, or at all. The unavailability of funds could have a material adverse effect on the company's financial condition, results of operations and ability to expand the company's operations.

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

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

The company’s current credit agreement limits its ability to conduct business, which could negatively affect the company’s ability to finance future capital needs and engage in other business activities.

The covenants in the company’s existing credit agreement contain a number of significant limitations on its ability to, among other things:

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

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

Under the company’s current credit agreement, the company is required to maintain certain specified financial ratios and meet financial tests, including certain ratios of leverage and fixed charge coverage. The company’s ability to comply with these requirements may be affected by matters beyond its control, and, as a result, there can be no assurance that the company will be able to meet these ratios and tests. A breach of any of these covenants would prevent the company from being able to draw under the company's revolver and would result in a default under the company’s current credit agreement. In the event of a default under the company’s current credit agreement, the lenders could terminate their commitments and declare all amounts borrowed, together with accrued interest and other fees, to be immediately due and payable. Borrowings under other debt instruments that contain cross-acceleration or cross-default provisions may also be accelerated and become due and payable at such time. The company may be unable to pay these debts in these circumstances.

The company has a significant amount of goodwill and could suffer losses due to asset impairment charges.

The company’s balance sheet includes a significant amount of goodwill, which represents approximately 37% of its total assets as of December 31, 2016. The excess of the purchase price over the fair value of assets acquired, including identifiable intangible assets, and liabilities assumed in conjunction with acquisitions is recorded as goodwill. In accordance with Accounting Standards Codification (“ASC”) 350 “Intangibles-Goodwill and Other”, the company’s long-lived assets (including goodwill and other intangibles) are reviewed for impairment annually and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In assessing the recoverability of long-lived assets, the company considers changes in economic conditions and makes assumptions regarding estimated future cash flows and other factors. Various uncertainties, including continued adverse conditions in the capital markets or changes in general economic conditions, could impact the future operating performance at one or more of the company’s businesses, which could significantly affect the company’s valuations and could result in additional future impairments. Also, estimates of future cash flows are judgments based on the company’s experience and knowledge of operations. These estimates can be significantly impacted by many factors, including changes in global and local business and economic conditions, operating costs, inflation, competition, and consumer and demographic trends. If the company’s estimates or the underlying assumptions change in the future, the company may be required to record impairment charges. Any such charge could have a material adverse effect on the company’s reported net earnings.

The company's defined benefit pension plans are subject to financial market risks that could adversely affect the company's financial statements.

The performance of the financial markets and interest rates impact our defined benefit pension plan expenses and funding obligations. Significant changes in market interest rates, decreases in fair value of plan assets, investment losses on plan assets and changes in discount rates may increase the company's funding obligations and adversely impact our financial statements. In addition, upward pressure on the cost of providing healthcare coverage to current employees and retirees may increase our future funding obligations and adversely affect our financial statements.

Competition in the commercial foodservice, food processing, and residential kitchen equipment industries is intense and could impact the company's results of operations and cash flows.

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

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

The company is subject to risks associated with developing products and technologies, which could delay product introductions and result in significant expenditures.

The product, program and service needs of the company's customers change and evolve regularly, and the company invests substantial amounts in research and development efforts to pursue advancements in a wide range of technologies, products and services. Also, the company continually seeks to refine and improve upon the performance, utility and physical attributes of its existing products and to develop new products. As a result, the company's business is subject to risks associated with new product and technological development, including unanticipated technical or other problems, meeting development, production, certification and regulatory approval schedules, execution of internal and external performance plans, availability of supplier- and internally-produced parts and materials, performance of suppliers and subcontractors, hiring and training of qualified personnel, achieving cost and production efficiencies, identification of emerging technological trends in the company's target end-markets, validation of innovative technologies, the level of customer interest in new technologies and products, and customer acceptance of the company's products and products that incorporate technologies that the company develops. These factors involve significant risks and uncertainties. Also, any development efforts divert resources from other potential investments in the company's businesses, and these efforts may not lead to the development of new technologies or products on a timely basis or meet the needs of the company's customers as fully as competitive offerings. In addition, the markets for the company's products or products that incorporate the company's technologies may not develop or grow as the company anticipates. The company or its suppliers and subcontractors may encounter difficulties in developing and producing these new products and services, and may not realize the degree or timing of benefits initially anticipated. Due to the design complexity of the company's products, the company may in the future experience delays in completing the development and introduction of new products. Any delays could result in increased development costs or deflect resources from other projects. The occurrence of any of these risks could cause a substantial change in the design, delay in the development, or abandonment of new technologies and products. Consequently, there can be no assurance that the company will develop new technologies superior to the company's current technologies or successfully bring new products to market.

Additionally, there can be no assurance that new technologies or products, if developed, will meet the company's current price or performance objectives, be developed on a timely basis, or prove to be as effective as products based on other technologies. The inability to successfully complete the development of a product, or a determination by the company, for financial, technical or other reasons, not to complete development of a product, particularly in instances in which the company has made significant expenditures, could have a material adverse effect on the company's financial condition and operating results.

The company has depended, and will continue to depend, on key customers for a material portion of its revenues. As a result, changes in the purchasing patterns of such key customers could adversely impact the company's operating results.

Many of the company's key customers are large restaurant chains and major food processing companies. The demand for the company's equipment can vary from quarter to quarter depending on the company's customers' internal growth plans, construction, seasonality and other factors. In addition, during an economic downturn, key customers could both open fewer facilities and defer purchases of new equipment for existing operations. Either of these conditions could have a material adverse effect on the company's financial condition and results of operations.

Price changes in some materials and disruptions in supply could affect the company's profitability.

The company uses large amounts of stainless steel, aluminized steel and other commodities in the manufacture of its products. A significant increase in the price of steel or any other commodity that the company is not able to pass on to its customers would adversely affect the company's operating results. In addition, an unanticipated delay in delivery of raw materials and component inventories by suppliers—including a delay due to capacity constraints, labor disputes, the financial condition of suppliers, weather emergencies, or other natural disasters—may impair the ability of the company to satisfy customer demand. An interruption in or the cessation of an important supply by any third party and the company's inability to make alternative arrangements in a timely manner, or at all, could have a material adverse effect on the company's business, financial condition and operating results.

The company's acquisition, investment and alliance strategy involves risks. If the company is unable to effectively manage these risks, its business will be materially harmed.

To achieve the company's strategic objectives, the company has pursued and may continue to pursue strategic acquisitions and investments or invest in other companies, businesses or technologies. Acquisitions entail numerous risks, including the following:

- difficulties in the assimilation of acquired businesses or technologies;
- inability to operate acquired businesses or utilize acquired technologies profitably;
- diversion of management's attention from other business concerns;
- potential assumption of unknown material liabilities;
- failure to achieve financial or operating objectives;
- unanticipated costs relating to acquisitions or to the integration of the acquired businesses;
- loss of customers, suppliers, or key employees; and
- the impact on the company's internal controls and compliance with the regulatory requirements under the Sarbanes-Oxley Act of 2002.

The company may not be able to successfully integrate any operations, personnel, services or products that it has acquired or may acquire in the future.

The company may seek to expand or enhance some of its operations by forming joint ventures or alliances with various strategic partners throughout the world. Entering into joint ventures and alliances also entails risks, including difficulties in developing and expanding the businesses of newly formed joint ventures, exercising influence over the activities of joint ventures in which the company does not have a controlling interest and potential conflicts with the company's joint venture or alliance partners.

An inability to identify or complete future acquisitions could adversely affect future growth.

The company has historically followed a strategy of identifying and acquiring businesses with complementary products and services. As part of its growth strategy, the company intends to pursue acquisitions that provide opportunities for profitable growth and which enable it to leverage its competitive strengths. While the company continues to evaluate potential acquisitions, it may not be able to identify and successfully negotiate suitable acquisitions, obtain financing for future acquisitions on satisfactory terms, obtain regulatory approval for certain acquisitions, or otherwise complete acquisitions in the future. An inability to identify or complete future acquisitions could limit the company's growth.

Expansion of the company's operations internationally involves special challenges that it may not be able to meet. The company's failure to meet these challenges could adversely affect its business, financial condition and operating results.

The company plans to continue to expand its operations internationally. The company faces certain risks inherent in doing business in international markets. These risks include:

- extensive regulations and oversight, tariffs and other trade barriers;
- reduced protection for intellectual property rights;
- difficulties in staffing and managing foreign operations;
- potentially adverse tax consequences;
- limitations on ownership and on repatriation of earnings;
- transportation delays and interruptions;
- political, social, and economic instability and disruptions;
- labor unrests;
- potential for nationalization of enterprises; and
- limitations on the company's ability to enforce legal rights and remedies.

In addition, the company is and will be required to comply with the laws and regulations of foreign governmental and regulatory authorities of each country in which the company conducts business.

There can be no assurance that the company will be able to succeed in marketing its products and services in international markets. The company may also experience difficulty in managing its international operations because of, among other things, competitive conditions overseas, management of foreign exchange risk, established domestic markets, language and cultural differences and economic or political instability. Any of these factors could have a material adverse effect on the success of the company's international operations and, consequently, on the company's business, financial condition and operating results.

The company is subject to currency fluctuations and other risks from its operations outside the United States.

The company has manufacturing and distribution operations located in Asia, Europe and Latin America. The company's operations are subject to the impact of economic downturns, political instability and foreign trade restrictions, which may adversely affect the company's business, financial condition and operating results. The company anticipates that international sales will continue to account for a significant portion of consolidated net sales in the foreseeable future. Some sales and operating costs of the company's foreign operations are realized in local currencies, and an increase in the relative value of the U.S. dollar against such currencies would lead to a reduction in consolidated sales and earnings. Additionally, foreign currency exposures are not fully hedged, and there can be no assurances that the company's future results of operations will not be adversely affected by currency fluctuations. Furthermore, currency fluctuations may affect the prices paid to the company's suppliers for materials the company uses in production. As a result, operating margins may also be negatively impacted by worldwide currency fluctuations that result in higher costs for certain cross-border transactions.

The company may not be able to adequately protect its intellectual property rights, and this inability may materially harm its business.

The company relies primarily on trade secret, copyright, service mark, trademark and patent law and contractual protections to protect the company's proprietary technology and other proprietary rights. The company has filed numerous patent applications covering the company's technology. Notwithstanding the precautions the company takes to protect its intellectual property rights, it is possible that third parties may copy or otherwise obtain and use the company's proprietary technology without authorization or may otherwise infringe on the company's rights. In some cases, including with respect to a number of the company's most important products, there may be no effective legal recourse against duplication by competitors. In the future, the company may have to rely on litigation to enforce its intellectual property rights, protect its trade secrets, determine the validity and scope of the proprietary rights of others or defend against claims of infringement or invalidity. Any such litigation, whether successful or unsuccessful, could result in substantial costs to the company and diversions of the company's resources, either of which could adversely affect the company's business.

Any infringement by the company on patent rights of others could result in litigation and adversely affect its ability to continue to provide, or could increase the cost of providing, the company's products and services.

Patents of third parties may have an important bearing on the company's ability to offer some of its products and services. The company's competitors, as well as other companies and individuals, may obtain patents related to the types of products and services the company offers or plans to offer. There can be no assurance that the company is or will be aware of all patents containing claims that may pose a risk of infringement by its products and services. In addition, some patent applications in the United States are confidential until a patent is issued and, therefore, the company cannot evaluate the extent to which its products and services may be covered or asserted to be covered by claims contained in pending patent applications. In general, if one or more of the company's products or services were to infringe patents held by others, the company may be required to stop developing or marketing the products or services, to obtain licenses from the holders of the patents to develop and market the services, or to redesign the products or services in such a way as to avoid infringing on the patent claims. The company cannot assess the extent to which it may be required in the future to obtain licenses with respect to patents held by others, whether such licenses would be available or, if available, whether it would be able to obtain such licenses on commercially reasonable terms. If the company were unable to obtain such licenses, it also may not be able to redesign the company's products or services to avoid infringement, which could materially adversely affect the company's business, financial condition and operating results.

The company may be the subject of product liability claims or product recalls, and it may be unable to obtain or maintain insurance adequate to cover potential liabilities.

Product liability is a significant commercial risk to the company. The company's business exposes it to potential liability risks that arise from the manufacture, marketing and sale of the company's products. In addition to direct expenditures for damages, settlement and defense costs, there is a possibility of adverse publicity as a result of product liability claims. Some plaintiffs in some jurisdictions have received substantial damage awards against companies based upon claims for injuries allegedly caused by the use of their products. In addition, it may be necessary for the company to recall products that do not meet approved specifications, which could result in adverse publicity as well as costs connected to the recall and loss of revenue.

The company cannot be certain that a product liability claim or series of claims brought against it would not have an adverse effect on the company's business, financial condition or results of operations. If any claim is brought against the company, regardless of the success or failure of the claim, the company cannot assure you that it will be able to obtain or maintain product liability insurance in the future on acceptable terms or with adequate coverage against potential liabilities or the cost of a recall. The company currently maintains insurance programs consisting of self-insurance up to certain limits and excess insurance coverage for claims over established limits. There can be no assurance that the company will be able to obtain insurance on acceptable terms or that its insurance programs will provide adequate protection against actual losses. In addition, the company is subject to the risk that one or more of its insurers may become insolvent or become unable to pay claims that may be made in the future.

An increase in warranty expenses could adversely affect the company's financial performance.

The company offers purchasers of its products warranties covering workmanship and materials typically for one year and, in certain circumstances, for periods of up to ten years, during which periods the company or an authorized service representative will make repairs and replace parts that have become defective in the course of normal use. The company estimates and records its future warranty costs based upon past experience. These warranty expenses may increase in the future and may exceed the company's warranty reserves, which, in turn, could adversely affect the company's financial performance.

The company may be subject to litigation, environmental, and other legal compliance risks.

In addition to product liability claims, the company is subject to a variety of litigation, tax, and legal compliance risks. These risks include, among other things, possible liability relating to personal injuries, intellectual property rights, contract-related claims, taxes, environmental matters, and compliance with U.S. and foreign export laws, competition laws, and laws governing improper business practices. The company or one of its business units could be charged with wrongdoing as a result of such matters. If convicted or found liable, the company could be subject to significant fines, penalties, repayments, or other damages.

The company is subject to potential liability under environmental laws.

The company's operations are regulated under a number of federal, state and local environmental laws and regulations that govern, among other things, the discharge of hazardous materials into the air and water as well as the handling, storage and disposal of these materials. Compliance with these environmental laws and regulations is a significant consideration for the company because it uses hazardous materials in its manufacturing processes. In addition, because the company is a generator of hazardous wastes, even if it fully complies with applicable environmental laws, it may be subject to financial exposure for costs associated with an investigation and remediation of sites at which it has arranged for the disposal of hazardous wastes if these sites become contaminated. In the event of a violation of environmental laws, the company could be held liable for damages and for the costs of remedial actions. Environmental laws could also become more stringent over time, imposing greater compliance costs and increasing risks and penalties associated with any violation, which could negatively affect the company's operating results. There can be no assurance that identification of presently unidentified environmental conditions, more vigorous enforcement by regulatory authorities, or other unanticipated events will not arise in the future and give rise to additional environmental liabilities, compliance costs, and penalties that could be material. Environmental laws and regulations are constantly evolving, and it is impossible to predict accurately the effect they may have upon the financial condition, results of operations, or cash flows of the company.

Unfavorable tax law changes and tax authority rulings may adversely affect results.

The company is subject to income taxes in the United States and in various foreign jurisdictions. Domestic and international tax liabilities are based on the income and expenses in various tax jurisdictions. The amount of the company's income and other tax liability is subject to ongoing audits by U.S. federal, state and local tax authorities and by non-U.S. authorities. If these audits result in assessments different from amounts recorded, future financial results may include unfavorable tax adjustments.

The company's reputation, ability to do business, and results of operations may be impaired by improper conduct by any of its employees, agents, or business partners.

While the company strives to maintain high standards, the company cannot provide assurance that its internal controls and compliance systems will always protect it from acts committed by its employees, agents, or business partners that would violate U.S. and/or foreign laws or fail to protect the company's confidential information, including the laws governing payments to government officials, bribery, fraud, anti-kickback and false claims rules, competition, export and import compliance, money laundering, and data privacy laws, as well as the improper use of proprietary information or social media. Any such violations of law or improper actions could subject the company to civil or criminal investigations in the U.S. and in other jurisdictions, could lead to substantial civil or criminal, monetary and non-monetary penalties, and related shareholder lawsuits, could lead to increased costs of compliance and could damage the company's reputation.

The company’s financial performance is subject to significant fluctuations.

The company’s financial performance is subject to quarterly and annual fluctuations due to a number of factors, including:

- general economic conditions;
- the lengthy, unpredictable sales cycle for commercial foodservice equipment, food processing equipment and residential kitchen equipment group;
- the gain or loss of significant customers;
- unexpected delays in new product introductions;
- the level of market acceptance of new or enhanced versions of the company’s products;
- unexpected changes in the levels of the company’s operating expenses; and
- competitive product offerings and pricing actions.

Each of these factors could result in a material and adverse change in the company’s business, financial condition and results of operations.

The company may be unable to manage its growth.

The company has recently experienced rapid growth in business. Continued growth could place a strain on the company’s management, operations and financial resources. There also will be additional demands on the company’s sales, marketing and information systems and on the company’s administrative infrastructure as it develops and offers additional products and enters new markets. The company cannot be certain that the company’s operating and financial control systems, administrative infrastructure, outsourced and internal production capacity, facilities and personnel will be adequate to support the company’s future operations or to effectively adapt to future growth. If the company cannot manage the company’s growth effectively, the company’s business may be harmed.

The company’s business could suffer in the event of a work stoppage by its unionized labor force.

Because the company has a significant number of workers whose employment is subject to collective bargaining agreements and labor union representation, the company is vulnerable to possible organized work stoppages and similar actions. Unionized employees accounted for approximately 8% of the company’s workforce as of December 31, 2016. The company has union contracts with employees at its facilities in Windsor, California; Algona, Iowa; Elgin, Illinois; Easton, Pennsylvania and Lodi, Wisconsin that extend through December 2020, December 2018, July 2017, May 2019 and December 2018, respectively. The company also has a union workforce at its manufacturing facility in the Philippines under a contract that extends through June 2021. Approximately 1% of the company's workforce is covered by collective bargaining agreements that expire within one year. Any future strikes, employee slowdowns or similar actions by one or more unions, in connection with labor contract negotiations or otherwise, could have a material adverse effect on the company’s ability to operate the company’s business.

The company depends significantly on its key personnel.

The company depends significantly on the company’s executive officers and certain other key personnel, whom could be difficult to replace. While the company has employment agreements with certain key executives, the company cannot be certain that it will succeed in retaining this personnel or their services under existing agreements. The incapacity, inability or unwillingness of certain of these people to perform their services may have a material adverse effect on the company. There is intense competition for qualified personnel within the company’s industry, and there can be no assurance that the company will be able to continue to attract, motivate and retain personnel with the skills and experience needed to successfully manage the company's business and operations.

The company may be subject to information technology system failures, network disruptions, cybersecurity attacks and breaches in data security, which may materially adversely affect the company's operations, financial condition and operating results.

The company depends on information technology as an enabler to improve the effectiveness of its operations and to interface with its customers, as well as to maintain financial accuracy and efficiency. Information technology system failures, including suppliers' or vendors' system failures, could disrupt the company's operations by causing transaction errors, processing inefficiencies, delays or cancellation of customer orders, the loss of customers, impediments to the manufacture or shipment of products, other business disruptions, or the loss of or damage to intellectual property through security breach.

The company's information systems, or those of its third-party service providers, could also be penetrated by outside parties intent on extracting information, corrupting information or disrupting business processes. Such unauthorized access could disrupt the company's business and could result in the loss of assets. Cybersecurity attacks are becoming more sophisticated and include, but are not limited to, malicious software, attempts to gain unauthorized access to data, and other electronic security breaches that could lead to disruptions in critical systems, unauthorized release of confidential or otherwise protected information, and corruption of data. These events could impact the company's customers and reputation and lead to financial losses from remediation actions, loss of business or potential liability or an increase in expense, all of which may have a material adverse effect on the company's business.

The impact of future transactions on the company's common stock is uncertain.

The company periodically reviews potential transactions related to products or product rights and businesses complementary to the company's business. Such transactions could include mergers, acquisitions, joint ventures, alliances or licensing agreements. In the future, the company may choose to enter into such transactions at any time. The impact of transactions on the market price of a company's stock is often uncertain, but it may cause substantial fluctuations to the market price. Consequently, any announcement of any such transaction could have a material adverse effect upon the market price of the company's common stock. Moreover, depending upon the nature of any transaction, the company may experience a charge to earnings, which could be material and could possibly have an adverse impact upon the market price of the company's common stock.

The trading price of the company's common stock has been volatile, and investors in the company's common stock may experience substantial losses.

The trading price of the company's common stock has been volatile and may become volatile again in the future. The trading price of the company's common stock could decline or fluctuate in response to a variety of factors, including:

- the company's failure to meet the performance estimates of securities analysts;
- changes in buy/sell recommendations by securities analysts;
- fluctuations in our operating results;
- substantial sales of the company's common stock
- general stock market conditions; or
- other economic or external factors.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

The company's principal executive offices are located in Elgin, Illinois. The company operates twenty-eight manufacturing facilities in the U.S. and twenty-three manufacturing facilities internationally.

The principal properties of the company used to conduct business operations are listed below:

Location	Principal Function	Square Footage	Owned/ Leased	Lease Expiration
Commercial Foodservice:				
Brea, CA	Manufacturing, Warehousing and Offices	80,700	Leased	September 2020
Vacaville, CA	Manufacturing, Warehousing and Offices	81,200	Leased	June 2026
Windsor, CA	Manufacturing, Warehousing and Offices	75,000	Leased	October 2022
Elgin, IL	Manufacturing, Warehousing and Offices	207,000	Owned	N/A
Mundelein, IL	Manufacturing, Warehousing and Offices	70,000	Owned	N/A
Menominee, MI	Manufacturing, Warehousing and Offices	60,000	Owned	N/A
St. Louis, MO	Offices	46,900	Leased	August 2017
Bow, NH	Manufacturing, Warehousing and Offices	100,000	Owned	N/A
Pembroke, NH	Warehousing	111,900	Leased	July 2024
Fuquay-Varina, NC	Manufacturing, Warehousing and Offices	138,900	Owned	N/A
Bethlehem, PA	Manufacturing, Warehousing and Offices	71,700	Leased	December 2024
Easton, PA	Manufacturing, Warehousing and Offices	156,700	Owned	N/A
Smithville, TN	Manufacturing, Warehousing and Offices	268,000	Owned	N/A
Carrollton, TX	Manufacturing, Warehousing and Offices	132,400	Leased	August 2022
Burlington, VT	Manufacturing, Warehousing and Offices	135,400	Owned	N/A
Essex Junction, VT	Manufacturing, Warehousing and Offices	100,000	Leased	June 2024
Redmond, WA	Manufacturing, Warehousing and Offices	42,400	Leased	May 2022
New South Wales, Australia	Manufacturing, Warehousing and Offices	204,900	Owned	N/A
Shanghai, China	Manufacturing, Warehousing and Offices	74,000	Leased	April 2020
Randers, Denmark	Manufacturing, Warehousing and Offices	78,500	Owned	N/A
Nusco, Italy	Manufacturing, Warehousing and Offices	24,200	Owned	N/A
Scandicci, Italy	Manufacturing, Warehousing and Offices	37,600	Leased	April 2025
Laguna, the Philippines	Manufacturing, Warehousing and Offices	115,200	Owned	N/A
Wiślina, Poland	Manufacturing, Warehousing and Offices	40,000	Owned	N/A
Lincoln, the United Kingdom	Manufacturing, Warehousing and Offices	100,000	Owned	N/A
Warwickshire, the United Kingdom	Manufacturing, Warehousing and Offices	12,000	Owned	N/A
Wrexham, the United Kingdom	Manufacturing, Warehousing and Offices	62,600	Owned	N/A
Food Processing:				
Gainesville, GA	Manufacturing, Warehousing and Offices	106,000	Owned	N/A
Chicago, IL	Manufacturing, Warehousing and Offices	64,400	Leased	March 2019
Algona, IA	Manufacturing, Warehousing and Offices	70,100	Owned	N/A
Clayton, NC	Manufacturing, Warehousing and Offices	65,300	Leased	October 2019
Plano, TX	Manufacturing, Warehousing and Offices	339,100	Leased	April 2022
Waynesboro, VA	Manufacturing, Warehousing and Offices	26,400	Owned	N/A
Lodi, WI	Manufacturing, Warehousing and Offices	114,600	Owned	N/A
Mauron, France	Manufacturing, Warehousing and Offices	98,000	Leased	January 2023
Reichenau, Germany	Manufacturing, Warehousing and Offices	57,900	Leased	December 2023
Bangalore, India	Manufacturing, Warehousing and Offices	75,000	Leased	February 2022
Norwich, the United Kingdom	Manufacturing, Warehousing and Offices	39,200	Owned	N/A

Location	Principal Function	Square Footage	Owned/ Leased	Lease Expiration
Residential Kitchen:				
Baldwin Park, CA	Warehousing and Offices	61,400	Leased	April 2017
Downey, CA	Manufacturing, Warehousing and Offices	122,500	Leased	December 2019
Suwanee, GA	Warehousing and Offices	142,000	Leased	January 2018
Greenville, MI	Manufacturing, Warehousing and Offices	225,000	Owned	N/A
Greenwood, MS	Manufacturing, Warehousing and Offices *	738,000	Owned	N/A
Brown Deer, WI	Manufacturing, Warehousing and Offices	144,800	Leased	May 2022
Rosyl St Pierre, France	Manufacturing and Warehousing	40,900	Owned	N/A
Saint Ouen L'aumone, France	Manufacturing and Warehousing	30,400	Leased	April 2021
Saint Symphorien, France	Manufacturing and Warehousing	138,000	Owned	N/A
Waterford, Ireland	Manufacturing, Warehousing and Offices	73,000	Leased	July 2027
Adderbury, the United Kingdom	Warehousing and Offices	82,500	Leased	August 2020
Coalbrookdale, the United Kingdom	Manufacturing and Offices	153,100	Owned	N/A
Ketley, the United Kingdom	Manufacturing and Offices	217,300	Owned	N/A
Leamington Spa, the United Kingdom	Manufacturing and Offices	270,200	Owned	N/A
Leamington Spa, the United Kingdom	Warehousing and Offices	100,300	Leased	August 2019
Nottingham, the United Kingdom	Manufacturing and Offices	153,100	Owned	N/A
Gee Targu Mures, Romania	Manufacturing and Warehousing	48,000	Owned	N/A

* Contains three separate manufacturing facilities.

At various other locations the company leases small amounts of space for administrative, manufacturing, distribution and sales functions, and in certain instances limited short-term inventory storage. These locations are in Brazil, China, Czech Republic, Dubai, France, India, Italy, Mexico, Spain, the United Kingdom and various locations in the United States.

Management believes that these facilities are adequate for the operation of the company's business as presently conducted.

Item 3. Legal Proceedings

The company is routinely involved in litigation incidental to its business, including product liability claims, which are partially covered by insurance or in certain cases by indemnification provisions under purchase agreements for recently acquired companies. Such routine claims are vigorously contested and management does not believe that the outcome of any such pending litigation will have a material effect upon the financial condition, results of operations or cash flows of the company.

Item 4. Mine Safety Issues

Not applicable.

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Principal Market

The company's Common Stock trades on the Nasdaq Global Market under the symbol "MIDD". The following table sets forth, for the periods indicated, the high and low closing sale prices per share of Common Stock, as reported by the Nasdaq Global Market.

	Closing Share Price	
	High	**Low**
Fiscal 2016		
First quarter	$ 108.38	$ 80.62
Second quarter	126.52	103.39
Third quarter	132.17	112.94
Fourth quarter	142.38	109.23
Fiscal 2015		
First quarter	$ 109.00	$ 93.34
Second quarter	114.75	100.98
Third quarter	124.08	102.71
Fourth quarter	120.33	102.65

Shareholders

The company estimates there were approximately 81,913 record holders of the company's common stock as of February 27, 2017.

Dividends

The company does not currently pay cash dividends on its common stock. Any future payment of cash dividends on the company's common stock will be at the discretion of the company's Board of Directors and will depend upon the company's results of operations, earnings, capital requirements, contractual restrictions and other factors deemed relevant by the Board of Directors. The company's Board of Directors currently intends to retain any future earnings to support its operations and to finance the growth and development of the company's business and does not intend to declare or pay cash dividends on its common stock for the foreseeable future. In addition, the company's revolving credit facility limits its ability to declare or pay dividends on its common stock.

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)
October 2 to October 29, 2016	—	$ —	—	2,566,762
October 30 to November 26, 2016	—	—	—	2,566,762
November 27 to December 31, 2016	—	—	—	2,566,762
Quarter ended December 31, 2016	—	$ —	—	2,566,762

(1) In July 1998, the company's Board of Directors adopted a stock repurchase program and subsequently authorized the purchase of common shares in open market purchases. During 2013, the company's Board of Directors authorized the purchase of additional common shares in open market purchases. As of December 31, 2016, the total number of shares authorized for repurchase under the program is 4,570,266. As of December 31, 2016, 2,003,504 shares had been purchased under the 1998 stock repurchase program. At December 31, 2016, the company had a total of 4,905,549 shares in treasury amounting to $205.3 million.

Item 6. Selected Financial Data

(amounts in thousands, except per share data)
Fiscal Year Ended(1, 2)

	2016	2015	2014	2013	2012
Income Statement Data:					
Net sales	$ 2,267,852	$ 1,826,598	$ 1,636,538	$ 1,428,685	$ 1,038,174
Cost of sales	1,366,672	1,120,093	995,953	878,674	635,185
Gross profit	901,180	706,505	640,585	550,011	402,989
Selling and distribution expenses	223,883	193,353	182,578	155,639	106,129
General and administrative expenses	220,548	181,795	157,016	140,809	108,776
Restructuring expenses	10,524	28,754	7,078	9,101	—
Gain on litigation settlement	—	—	(6,519)	—	—
Income from operations	446,225	302,603	300,432	244,462	188,084
Net interest expense and deferred financing amortization, net	23,880	16,967	15,592	15,901	9,238
Other expense (income), net	1,040	4,469	4,050	2,780	4,406
Earnings before income taxes	421,305	281,167	280,790	225,781	174,440
Provision for income taxes	137,089	89,557	87,478	71,853	53,743
Net earnings	$ 284,216	$ 191,610	$ 193,312	$ 153,928	$ 120,697
Net earnings per share:					
Basic	$ 4.98	$ 3.36	$ 3.41	$ 2.76	$ 2.22
Diluted	$ 4.98	$ 3.36	$ 3.40	$ 2.74	$ 2.20
Weighted average number of shares outstanding:					
Basic	57,030	56,951	56,764	55,831	54,377
Diluted	57,085	56,973	56,784	56,148	54,807
Balance Sheet Data:					
Working capital	$ 323,290	$ 285,191	$ 285,817	$ 234,349	$ 170,167
Total assets	2,917,136	2,761,151	2,066,131	1,819,206	1,244,280
Total debt	732,126	766,061	598,167	571,598	260,070
Stockholders' equity	1,265,318	1,166,830	1,006,760	838,347	650,027

(1) The company's fiscal year ends on the Saturday nearest to December 31.
(2) The company has acquired numerous businesses in the periods presented. Please see Footnote 2 in the Notes to Consolidated Financial Statements for further information.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Special Note Regarding Forward-Looking Statements

This report contains "forward-looking statements" subject to the Private Securities Litigation Reform Act of 1995. These forward-looking statements involve known and unknown risks, uncertainties and other factors, which could cause the company's actual results, performance or outcomes to differ materially from those expressed or implied in the forward-looking statements. The following are some of the important factors that could cause the company's actual results, performance or outcomes to differ materially from those discussed in the forward-looking statements:

- changing market conditions;
- 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;
- risks associated with the company's foreign operations, including market acceptance and demand for the company's products and the company's ability to manage the risk associated with the exposure to foreign currency exchange rate fluctuations;
- the company's ability to protect its trademarks, copyrights and other intellectual property;
- the impact of competitive products and pricing;
- the state of the residential construction, housing and home improvement markets;
- the state of the credit markets, including mortgages, home equity loans and consumer credit;
- the company's ability to maintain and grow the Viking reputation and brand image;
- intense competition in the company's business segments including the impact of both new and established global competitors;
- unfavorable tax law changes and tax authority rulings;
- cybersecurity attacks and other breaches in security;
- the continued ability to realize profitable growth through the sourcing and completion of strategic acquisitions;
- the timely development and market acceptance of the company's products; and
- the availability and cost of raw materials.

The company cautions readers to carefully consider the statements set forth in the section entitled "Item 1A. Risk Factors" of this filing and discussion of risks included in the company's SEC filings.

NET SALES SUMMARY
(dollars in thousands)

	Fiscal Year Ended(1)					
	2016		2015		2014	
	Sales	Percent	Sales	Percent	Sales	Percent
Business Segments:						
Commercial Foodservice	$ 1,266,955	55.9%	$ 1,121,046	61.4%	$ 1,041,228	63.6%
Food Processing	342,235	15.1	297,712	16.3	322,783	19.7
Residential Kitchen	658,662	29.0	407,840	22.3	272,527	16.7
Total	$ 2,267,852	100.0%	$ 1,826,598	100.0%	$ 1,636,538	100.0%

(1) The company's fiscal year ends on the Saturday nearest to December 31.

Results of Operations

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

	Fiscal Year Ended(1)		
	2016	2015	2014
Net sales	100.0%	100.0%	100.0%
Cost of sales	60.3	61.3	60.9
Gross profit	39.7	38.7	39.1
Selling, general and administrative expenses	19.6	20.6	20.7
Restructuring expenses	0.5	1.6	0.4
Gain on litigation settlement	—	—	(0.4)
Income from operations	19.6	16.5	18.4
Interest expense and deferred financing amortization, net	1.1	0.9	1.0
Other expense, net	—	0.2	0.3
Earnings before income taxes	18.5	15.4	17.1
Provision for income taxes	6.0	4.9	5.3
Net earnings	12.5%	10.5%	11.8%

(1) The company's fiscal year ends on the Saturday nearest to December 31.

Fiscal Year Ended December 31, 2016 as Compared to January 2, 2016

Net sales. Net sales in fiscal 2016 increased by $441.3 million or 24.2% to $2,267.9 million as compared to $1,826.6 million in fiscal 2015. The increase in net sales of $409.6 million, or 22.4%, was attributable to acquisition growth, resulting from the fiscal 2015 acquisitions of Goldstein Eswood, Marsal, Induc, Thurne, AGA and Lynx and the fiscal 2016 acquisition of Follett. Excluding acquisitions, net sales increased $31.7 million, or 1.7%, from the prior year. The impact of foreign exchange rates on foreign sales translated into U.S. Dollars for fiscal 2016 reduced net sales by approximately $39.9 million or 2.2%. Excluding the impact of foreign exchange, organic sales growth amount to 3.9% for the year, including a net sales increase of 5.5% at the Commercial Foodservice Equipment Group, a net sales increase of 13.7% at the Food Processing Equipment Group and a net sales decrease of 7.7% at the Residential Kitchen Equipment Group.

- Net sales of the Commercial Foodservice Equipment Group increased by $146.0 million or 13.0% to $1,267.0 million in fiscal 2016, as compared to $1,121.0 million in fiscal 2015. Net sales from the acquisitions of Goldstein Eswood, Marsal, Induc and Follett which were acquired on January 30, 2015, February 10, 2015, May 30, 2015, and May 31, 2016, respectively, accounted for an increase of $106.0 million during fiscal 2016. Excluding the impact of acquisitions, net sales of the Commercial Foodservice Equipment Group increased $40.0 million, or 3.6%, as compared to the prior year. Excluding the impact of foreign exchange, organic net sales increased $62.2 million, or 5.5% at the Commercial Foodservice Equipment Group. Domestically, the company realized a sales increase of $70.1 million, or 8.9%, to $853.9 million, as compared to $783.8 million in the prior year. This includes an increase of $90.4 million from recent acquisitions. Excluding acquisitions, net sales decreased $20.3 million, or 2.6%. The decline in domestic sales reflect the impact of several large rollouts with major restaurant chain customers in the prior year period. International sales increased $75.9 million, or 22.5%, to $413.1 million, as compared to $337.2 million in the prior year. This includes the increase of $15.6 million from the recent acquisitions, offset by $22.2 million related to the unfavorable impact of exchange rates. Excluding acquisitions and exchange effect, net sales increased $82.5 million, or 24.5%. Strong international growth continued in all regions due to more favorable market conditions than in the prior year and growth with local restaurant chain concepts.

- Net sales of the Food Processing Equipment Group increased by $44.5 million or 14.9% to $342.2 million in fiscal 2016, as compared to $297.7 million in fiscal 2015. Net sales from the acquisition of Thurne which was acquired on April 7, 2015, accounted for an increase of $5.6 million. Excluding the impact of this acquisition, net sales of the Food Processing Equipment Group increased $38.9 million, or 13.1%. Excluding the impact of foreign exchange, organic net sales increased $40.7 million, or 13.7% at the Food Processing Equipment Group. Domestically, the company realized a sales increase of $58.0 million, or 29.5%, to $254.4 million, as compared to $196.4 million in the prior year. This includes an increase of $5.3 million from the recent acquisition. Excluding this acquisition, net sales increased $52.7 million, or 26.8%. International sales decreased $13.5 million, or 13.3%, to $87.8 million, as compared to $101.3 million in the prior year. This includes the increase of $0.3 million from the recent acquisition, offset by $1.8 million related to the unfavorable impact of exchange rates. The overall net sales growth at the Food Processing Equipment Group reflects revenue recognized from a strong backlog and continued strong incoming order levels as customers continue to upgrade facilities to new technologies and expand capacity to meet growing demand. The variability in growth rates for domestic and international sales reflects the shift in mix related to the timing of certain larger projects in differing geographic regions that regularly occur between comparative periods.

- Net sales of the Residential Kitchen Equipment Group increased by $250.9 million or 61.5% to $658.7 million in fiscal 2016, as compared to $407.8 million in fiscal 2015. Net sales from the acquisitions of AGA and Lynx which were acquired on September 23, 2015 and December 15, 2015, respectively, accounted for an increase of $298.0 million. Excluding the impact of these acquisitions, net sales of the Residential Kitchen Equipment Group decreased $47.1 million, or 11.5%. Excluding the impact of foreign currency, organic net sales decreased $31.2 million, or 7.7% at the Residential Kitchen Equipment Group. This decrease is net of price increases, which are estimated to have added 2.0% to net sales in comparison to the prior year. Domestically, the company realized a sales increase of $67.7 million, or 23.0%, to $362.3 million, as compared to $294.6 million in the prior year. This includes an increase of $93.0 million from recent acquisitions. Excluding acquisitions, net sales decreased $25.3 million, or 8.6%. International sales increased $183.2 million, or 161.8% to $296.4 million, as compared to $113.2 million in the prior year. This includes an increase of $205.0 million from recent acquisitions and a reduction of $15.9 million related to the unfavorable impact of exchange rates. Excluding acquisitions and exchange effect, net sales decreased $5.9 million, or 5.2%. Organic sales growth for the year was adversely impacted by lower sales at U-Line due to a prior year new product launch resulting in higher sales to dealers. Additionally, sales continued to be affected by the 2015 recall of certain Viking products manufactured prior to 2013 and Middleby's acquisition of Viking.

Gross profit. Gross profit increased by $194.7 million to $901.2 million in fiscal 2016 from $706.5 million in fiscal 2015. The increase in the gross profit reflects the impact of increased sales from revenue growth and acquisition sales, offset by the impact of foreign exchange rates, which reduced gross profit by $13.2 million. The gross margin rate increased from 38.7% in 2015 to 39.7% in 2016.

- Gross profit at the Commercial Foodservice Equipment Group increased by $75.0 million, or 16.4%, to $532.9 million in fiscal 2016 as compared to $457.9 million in fiscal 2015. Gross profit from the acquisitions of Goldstein Eswood, Marsal, Induc, and Follett accounted for approximately $36.9 million of the increase in gross profit during fiscal 2016. Excluding the recent acquisitions, the gross profit increased by approximately $38.1 million on the higher sales volumes. The impact of foreign exchange rates reduced gross profit by approximately $5.8 million. The gross profit margin rate increased to 42.1% as compared to 40.8% in the prior year, due primarily to changes in sales mix and efficiency gains, as compared to the prior year period.

- Gross profit at the Food Processing Equipment Group increased by $21.6 million, or 18.6%, to $137.7 million in fiscal 2016 as compared to $116.1 million in fiscal 2015. Gross profit from the acquisition of Thurne accounted for approximately $3.0 million of the increase in gross profit during fiscal 2016. Excluding the recent acquisition, the gross profit increased by approximately $18.6 million on higher sales volumes. The impact of foreign exchange rates reduced gross profit by approximately $1.6 million. The gross profit margin rate increased to 40.2% in fiscal 2016 as compared to 39.0% in fiscal 2015. The increase in the gross margin rate reflects the favorable impact of ongoing cost efficiency initiatives related to recent acquisitions and favorable sales mix.

- Gross profit at the Residential Kitchen Equipment Group increased by $101.8 million, or 77.8%, to $232.7 million in fiscal 2016 as compared to $130.9 million in fiscal 2015. Gross profit from the acquisitions of AGA and Lynx accounted for approximately $96.3 million of the increase in gross profit during fiscal 2016. Excluding the recent acquisitions, the gross profit increased by approximately $5.5 million on lower sales volumes offsetting price increases. The impact of foreign exchange rates reduced gross profit by approximately $5.8 million. The gross margin rate increased to 35.3% in fiscal 2016 as compared to 32.1% in fiscal 2015, due to improved margins at Viking as a result of continued efficiency gains and AGA profitability improvements recognized in connection with ongoing integration initiatives.

Selling, general and administrative expenses. Combined selling, general, and administrative expenses increased by $50.9 million to $454.9 million in fiscal 2016 from $404.0 million in 2015. As a percentage of net sales, operating expenses amounted to 19.6% in fiscal 2016 and 20.5% in fiscal 2015, excluding restructuring charges.

Selling expenses increased $30.5 million to $223.9 million from $193.4 million in the prior year period. Selling expenses increased $43.4 million associated with the Goldstein Eswood, Thurne, Induc, AGA, Lynx, and Follett acquisitions. This increase was offset by the favorable impact of foreign exchange rates of $3.4 million, reduced compensation and commissions of $2.5 million and lower trade advertising expense of $2.1 million.

General and administrative expenses increased $38.7 million to $220.5 million from $181.8 million in the prior year period. General and administrative expenses increased 36.6 million associated with the Goldstein Eswood, Thurne, Induc, AGA, Lynx, and Follett acquisitions, including $8.8 million of non-cash intangible amortization expense. The general and administrative increase from acquisitions also includes the net periodic pension benefit related to the AGA pension plans which amount to $24.5 million.

Restructuring expenses decreased $18.3 million to $10.5 million from $28.8 million in the prior year period. Restructuring expenses during fiscal 2016 are related to acquisition integration initiatives to reduce costs related to AGA. Restructuring expenses during fiscal 2015 were associated with cost reductions initiatives related to AGA, the closure and consolidation of distribution facilities at the Residential Kitchen Equipment Group and the consolidation of two production facilities at the Food Processing and Commercial Foodservice Equipment Groups.

Income from operations. Income from operations increased $143.6 million to $446.2 million in fiscal 2016 from $302.6 million in fiscal 2015. The increase in operating income resulted from the increase in net sales and gross profit, offset in part by increased operating and restructuring expenses. Operating income as a percentage of net sales amounted to 19.6% in 2016 as compared to 16.5% in 2015. Excluding the impact of restructuring expenses, operating income as a percentage of net sales amounted to 20.1% in 2016 in comparison to 18.1% in 2015, reflecting an increase in the net periodic pension benefit and ongoing cost reduction initiatives.

Income from operations in 2016 included $84.0 million of non-cash expenses, including $26.2 million of depreciation expense, $29.9 million of intangible amortization related to acquisitions and $27.9 million of stock based compensation. This compares to $68.8 million of non-cash expenses in the prior year, including $25.5 million of depreciation expense, $27.4 million of intangible amortization related to acquisitions, and $15.9 million of stock based compensation costs.

Non-operating expenses. Non-operating expenses increased $3.4 million to $24.9 million in fiscal 2016 from $21.5 million in fiscal 2015. Net interest expense increased $6.9 million from $17.0 million in fiscal 2015 to $23.9 million in fiscal 2016 reflecting increased interest due to higher debt balances related to the funding of acquisitions. Other expense was $1.0 million in fiscal 2016 as compared to $4.5 million in fiscal 2015 and consists mainly of net foreign exchange losses attributable to the strengthening of the U.S. Dollar.

Income taxes. A tax provision of $137.1 million, at an effective rate of 32.5%, was recorded for fiscal 2016 as compared to $89.6 million at an effective rate of 31.9%, in fiscal 2015. The current year effective tax rate is comprised of a 35.0% U.S. federal tax rate and 2.3% in U.S. state income taxes, 0.3% in other adjustments, net of 2.4% in U.S. domestic manufacturers deduction, 1.6% in permanent tax deductions and 1.1% in foreign rate differentials. In comparison to the prior year, the tax provision reflects a 0.6% higher effective rate impact mostly related to a decrease in foreign rate differentials and an increase in permanent tax benefits.

Fiscal Year Ended January 2, 2016 as Compared to January 3, 2015

Net sales. Net sales in fiscal 2015 increased by $190.1 million or 11.6% to $1,826.6 million as compared to $1,636.5 million in fiscal 2014. The increase in net sales of $231.3 million, or 14.1%, was attributable to acquisition growth, resulting from the fiscal 2014 acquisitions of PES, Concordia and U-Line and the fiscal 2015 acquisitions of Desmon, Goldstein Eswood, Marsal, Induc, Thurne, AGA and Lynx. Excluding acquisitions, net sales decreased $41.2 million, or 2.5%, from the prior year. The impact of foreign exchange rates on foreign sales translated into U.S. Dollars for fiscal 2015 reduced net sales by approximately $48.5 million or 3.0%. On a constant currency basis, organic sales growth amount to 0.4% for the year, including a net sales increase of 6.3% at the Commercial Foodservice Equipment Group, a net sales decrease of 8.3% at the Food Processing Equipment Group and a net sales decrease of 11.6% at the Residential Kitchen Equipment Group.

- Net sales of the Commercial Foodservice Equipment Group increased by $79.8 million or 7.7% to $1,121.0 million in fiscal 2015, as compared to $1,041.2 million in fiscal 2014. Net sales from the acquisitions of Concordia, Desmon, Goldstein Eswood, Marsal and Induc which were acquired on September 8, 2014, January 7, 2015, January 30, 2015, February 10, 2015 and May 30, 2015, respectively, accounted for an increase of $42.3 million during fiscal 2015. Excluding the impact of acquisitions, net sales of the Commercial Foodservice Equipment Group increased $37.5 million, or 3.6%, as compared to the prior year. On a constant currency basis, organic net sales increased 6.3% at the Commercial Foodservice Equipment Group. Domestically, the company realized a sales increase of $59.0 million, or 8.1%, to $783.8 million, as compared to $724.8 million in the prior year. This includes an increase of $11.4 million from recent acquisitions. Excluding the acquisitions, the net increase of $47.6 million, or 6.6%, in domestic sales includes continued growth with customer initiatives to improve efficiencies in restaurant operations by adopting new cooking and warming technologies. International sales increased $20.8 million, or 6.6%, to $337.2 million, as compared to $316.4 million in the prior year. This includes the increase of $30.9 million from the recent acquisitions, offset by $28.2 million related to the unfavorable impact of exchange rates. The change in both domestic and international net sales also includes the favorable impact of increased prices over the prior year, which is estimated to have increased net sales by 2% to 3% as compared to the prior year.

- Net sales of the Food Processing Equipment Group decreased by $25.1 million or 7.8% to $297.7 million in fiscal 2015, as compared to $322.8 million in fiscal 2014. Net sales from the acquisitions of PES and Thurne which were acquired on March 31, 2014, and April 7, 2015, respectively, accounted for an increase of $19.2 million. Excluding the impact of these acquisitions, net sales of the Food Processing Equipment Group decreased $44.3 million, or 13.7%. On a constant currency basis, organic net sales decreased 8.3% at the Food Processing Equipment Group. Domestically, the company realized a sales increase of $41.7 million, or 27.0%, to $196.4 million, as compared to $154.7 million in the prior year. This includes an increase of $18.0 million from recent acquisitions. Excluding the acquisitions, the net increase of $23.7 million, or 15.3%. International sales decreased $66.8 million, or 39.7%, to $101.3 million, as compared to $168.1 million in the prior year. This includes the increase of $1.2 million from the recent acquisitions. The decrease in sales reflects a $17.4 million unfavorable impact of foreign exchange rates, challenging economic conditions in certain international markets and the timing of large orders associated with this business, impacting the growth in comparative periods. Although total net sales in this segment declined during the year, backlog increased to $108.5 million at the end of fiscal 2015 from $67.7 million at the end of fiscal 2014 as incoming orders exceeded shipments during the year due to the timing of certain large orders. Due to the nature of competitive bidding on large jobs and variability of equipment mix in comparison to the prior year, the impact of price changes are not estimated to be a significant or meaningful factor in the change in net sales from the prior year.

- Net sales of the Residential Kitchen Equipment Group increased by $135.3 million or 49.7% to $407.8 million in fiscal 2015, as compared to $272.5 million in fiscal 2014. Net sales from the acquisitions of U-Line, AGA and Lynx which were acquired on November 5, 2014, September 23, 2015 and December 15, 2015, respectively, accounted for an increase of $169.8 million. Excluding the impact of these acquisitions, net sales of the Residential Kitchen Equipment Group decreased $34.5 million, or 12.7%. On a constant currency basis, organic net sales decreased 11.6% at the Residential Kitchen Equipment Group. Domestically, the company also realized a sales increase of $35.0 million, or 13.5%, to $294.6 million, as compared to $259.6 million in the prior year. This includes an increase of $66.4 million from recent acquisitions. Excluding the acquisitions, the net sales decreased $31.4 million, or 12.1%. International sales increased $100.3 million, or 777.5%, to $113.2 million, as compared to $12.9 million in the prior year. This includes the increase of $103.4 million from the recent acquisitions, offset by $2.9 million related to the unfavorable impact of exchange rates. Organic sales growth for the year was adversely impacted by the announced recall of Viking product in 2015. Additionally, sales were impacted by the discontinuation of certain non-Viking manufactured products sold by the Distributors in 2014, resulting in comparatively lower sales in 2015 and lack of product availability related to the transition and initial production startup for a new line of Viking refrigeration in the first half of 2015. The net organic decrease in sales is net of price increases, which are estimated to have added approximately 2% to net sales in comparison to the prior year.

Gross profit. Gross profit increased by $65.9 million to $706.5 million in fiscal 2015 from $640.6 million in fiscal 2014. The increase in the gross profit reflects the impact of increased acquisition sales, offset by the impact of foreign exchange rates, which reduced gross profit by $13.8 million. Gross margin rate decreased from 39.1% in 2014 to 38.7% in 2015. The impact of increased selling prices net of higher input costs is not estimated to have a meaningful impact to the gross margin rate in comparison to the prior year.

- Gross profit at the Commercial Foodservice Equipment Group increased by $28.7 million, or 6.7%, to $457.9 million in fiscal 2015 as compared to $429.2 million in fiscal 2014. The gross margin rate declined to 40.8% as compared to 41.2% in the prior year. Gross profit from the acquisitions of Concordia, Desmon, Goldstein Eswood, Marsal and Induc accounted for approximately $15.4 million of the increase in gross profit during fiscal 2015. Excluding the recent acquisitions, the gross profit increased by approximately $13.3 million on the higher sales volumes. The gross margin rate was slightly less than the prior year reflecting the impact of sales mix, including the effect of lower margins at recent acquisitions.

- Gross profit at the Food Processing Equipment Group decreased by $6.0 million, or 4.9%, to $116.1 million in fiscal 2015 as compared to $122.1 million in fiscal 2014. The gross margin rate increased to 39.0% in fiscal 2015 as compared to 37.8% in fiscal 2014. Gross profit from the acquisitions of PES and Thurne accounted for approximately $6.1 million of the increase in gross profit during fiscal 2015. Excluding the recent acquisitions, the gross profit decreased by approximately $12.1 million on lower sales volumes. However, the gross margin rate improved as the company realized the favorable impact of ongoing integration initiatives related to recent acquisitions.

- Gross profit at the Residential Kitchen Equipment Group increased by $40.3 million, or 44.5%, to $130.9 million in fiscal 2015 as compared to $90.6 million in fiscal 2014. Gross profit from the acquisition of U-Line, AGA and Lynx accounted for approximately $53.9 million of the increase in gross profit during fiscal 2015. Excluding the recent acquisitions, the gross profit decreased by approximately $13.6 million on lower sales volumes offsetting price increases. The gross margin rate declined to 32.1% in fiscal 2015 as compared to 33.2% in fiscal 2014, due to the impact of lower gross margins at the recent acquisitions offsetting improved margins at Viking related to ongoing initiatives related to profitability improvement.

Selling, general and administrative expenses. Combined selling, general, and administrative expenses increased by $63.8 million to $404.0 million in fiscal 2015 from $340.2 million in 2014. As a percentage of net sales, operating expenses amounted to 20.5% in fiscal 2015 and 20.8% in fiscal 2014, excluding restructuring charges and the prior year gain on patent litigation settlement.

Selling expenses increased $10.8 million to $193.4 million from $182.6 million, reflecting an increase of $27.8 million associated with the Concordia, U-Line, Desmon, Goldstein Eswood, Thurne, Induc, AGA and Lynx acquisitions. This increase was offset in part by the favorable impact of $5.4 million in foreign currency translation, $10.4 million in reduced compensation and commissions reflecting the impact of cost reduction initiatives implemented in 2014 and 2015 and $3.5 million of lower advertising expense.

General and administrative expenses increased $24.8 million to $181.8 million from $157.0 million, reflecting an increase of $30.6 million associated with the Concordia, U-Line, Desmon, Goldstein Eswood, Thurne, Induc, AGA and Lynx acquisitions including $7.8 million of non-cash intangible amortization expense and $7.3 million related to AGA acquisition transaction costs. The increase was offset in part by the favorable impact of $3.9 million in foreign currency translation and
$5.7 million in lower compensation costs.

Restructuring expenses increased $21.7 million to $28.8 million from $7.1 million, reflecting restructuring costs of $25.5 million at the Residential Kitchen Group related to the integration of the Viking Distributors acquired in 2013 and 2014 and cost reduction initiatives related to AGA primarily associated with headcount reductions. Additionally, restructuring charges increased $3.3 million related to the consolidation of production facilities at the Food Processing Equipment Group and Commercial Foodservice Equipment Group. In the prior year period, restructuring charges of $7.1 million were incurred associated with the reorganization of the Residential Kitchen Equipment Group.

In the prior year, the gain on patent litigation consisted of $6.5 million of proceeds from a settlement related to a patent infringement matter.

Income from operations. Income from operations increased $2.2 million to $302.6 million in fiscal 2015 from $300.4 million in fiscal 2014. The increase in operating income resulted from the increase in net sales and gross profit, offset in part by increased operating and restructuring expenses. Operating income as a percentage of net sales amounted to 16.5% in 2015 as compared to 18.4% in 2014. Excluding the impact of restructuring expenses and gain on litigation settlement, operating income as a percentage of net sales amounted to 18.1% in 2015 in comparison to 18.4% in 2014, reflecting a slight decline from lower operating margins on recent acquisitions.

Income from operations in 2015 included $68.8 million of non-cash expenses, including $25.5 million of depreciation expense, $27.4 million of intangible amortization related to acquisitions and $15.9 million of stock based compensation. This compares to $56.8 million of non-cash expenses in the prior year, including $15.5 million of depreciation expense, $24.6 million of intangible amortization related to acquisitions, and $16.7 million of stock based compensation costs.

Non-operating expenses. Non-operating expenses increased $1.8 million to $21.5 million in fiscal 2015 from $19.7 million in fiscal 2014. Net interest expense increased $1.4 million from $15.6 million in fiscal 2014 to $17.0 million in fiscal 2015 due to higher debt balances related to the funding of acquisitions. Other expense was $4.5 million in fiscal 2015 as compared to $4.1 million in fiscal 2014 primarily reflecting foreign exchange losses during the year.

Income taxes. A tax provision of $89.6 million, at an effective rate of 31.9%, was recorded for fiscal 2015 as compared to $87.5 million at an effective rate of 31.2%, in fiscal 2014. The current year effective tax rate is comprised of a 35.0% U.S. federal tax rate and 2.1% in U.S. state income taxes, 0.6% in other adjustments, net of 2.6% in U.S. domestic manufacturers deduction, 1.1% in permanent tax deductions and 2.1% in foreign rate differentials. In comparison to the prior year, the tax provision reflects a 0.7% higher effective rate impact mostly related to a decrease in permanent tax benefits and an increase in tax reserves.

Financial Condition and Liquidity

Total cash and cash equivalents increased by $13.0 million to $68.5 million at December 31, 2016 from $55.5 million at January 2, 2016. Net borrowings decreased to $732.1 million at December 31, 2016, from $766.1 million at January 2, 2016.

Operating activities. Net cash provided by operating activities before changes in assets and liabilities amounted to $391.7 million as compared to $263.5 million in the prior year. Adjustments to reconcile 2016 net earnings to operating cash flows before changes in assets and liabilities included $26.2 million of depreciation and $32.0 million of amortization, $27.9 million of non-cash stock compensation expense and $21.4 million of deferred tax provision.

Net cash provided by operating activities after changes in assets and liabilities amounted to $294.1 million as compared to $249.6 million in the prior year.

During fiscal 2016, net cash used to fund changes in assets and liabilities amounted to $97.6 million. These changes included a $33.9 million increase in accounts receivable on increased sales and a $22.2 million increase in inventory related to timing of large orders for the Food Processing Equipment Group and cyclical working capital requirements for the Commercial Foodservice Equipment Group. Additionally, there was an $11.6 million increase in prepaid expenses and other assets offset by $7.7 million of cash used in the reduction of accounts payable and a $22.2 million decrease in accrued expenses and other non-current liabilities primarily related to the $14.4 million funding payment for the AGA pension plan and funding of severance obligations associated with AGA restructuring initiatives.

In connection with the company's acquisition activities during the year, the company added assets and liabilities from the opening balance sheets of the acquired businesses in its consolidated balance sheets and accordingly these amounts are not reflected in the net change in working capital.

Investing activities. During 2016, net cash used for investing activities amounted to $235.7 million. This included $208.7 million of the 2016 acquisitions of Emico and Follett, $1.9 million related to contingent consideration payments from previous years' acquisitions and $24.8 million of additions and upgrades of production equipment and manufacturing facilities.

Financing activities. Net cash flows provided by financing activities amounted to $41.4 million in 2016. The company repaid $2.5 million under its $2.5 billion Credit Facility and repaid $26.8 million under foreign borrowing facilities.

The company repurchased $4.4 million of Middleby common shares during 2016. This was comprised of $3.9 million used to repurchase 38,011 shares that were surrendered to the company by employees in lieu of cash for payment for withholding taxes related to restricted stock vestings that occurred during 2016 and $0.5 million used to repurchase 5,274 shares of its common stock under a stock repurchase program.

At December 31, 2016, the company was in compliance with all covenants pursuant to its borrowing agreements. Management believes that future cash flows from operating activities and borrowings from current lenders will provide the company with sufficient financial resources to meet its anticipated requirements for working capital, capital expenditures and debt amortization for the foreseeable future.

Contractual Obligations

The company's contractual cash payment obligations are set forth below (dollars in thousands):

	Amounts Due Sellers From Acquisition	Debt	Estimated Interest on Debt	Operating Leases	Total Contractual Cash Obligations
Less than 1 year	$ 5,664	$ 5,883	$ 20,822	$ 24,669	$ 57,038
1-3 years	3,447	405	40,726	37,744	82,322
4-5 years	512	725,727	32,137	25,961	784,337
After 5 years	—	111	1,426	26,342	27,879
	$ 9,623	$ 732,126	$ 95,111	$ 114,716	$ 951,576

The company has obligations to make $9.6 million of estimated contingent purchase price payments to the sellers of PES, Desmon, Goldstein, Induc and Emico that were deferred in conjunction with the acquisitions.

As of December 31, 2016, the company had $725.5 million outstanding under its revolving credit line as part of its senior credit agreement. The average interest rate on this debt amounted to 2.00% at December 31, 2016. This facility matures on July 28, 2021. As of December 31, 2016, the company also has $6.4 million of debt outstanding under various foreign credit facilities. The estimated interest payments reflected in the table above assume that the level of debt and average interest rate on the company’s revolving credit line under its senior credit agreement does not change until the facility reaches maturity in July 2021. The estimated payments also assume that relative to the company’s foreign borrowings: all scheduled term loan payments are made; the level of borrowings does not change; and the average interest rates remain at their December 31, 2016 rates. Also reflected in the table above is $10.9 million of payments to be made related to the company’s interest rate swap agreements in 2016.

As indicated in Note 10 to the consolidated financial statements, the company’s projected benefit obligation under its defined benefit plans exceeded the plans’ assets by $323.0 million at the end of 2016 as compared to $207.5 million at the end of 2015. The unfunded benefit obligations were comprised of a $18.4 million underfunding of the company's U.S. Plans and $304.6 million underfunding of the company’s Non-U.S. Plans. The company made minimum contributions required by the Employee Retirement Income Security Act of 1974 (“ERISA”) of $0.8 million and $0.8 million in 2016 and 2015, respectively, to the company’s U.S. Plans. The company expects to continue to make minimum contributions to the U.S. Plans as required by ERISA, of $1.2 million in 2017. The company expects to contribute $3.5 million to the Non-U.S. Plans in 2017.

The company places purchase orders with its suppliers in the ordinary course of business. These purchase orders are generally to fulfill short-term manufacturing requirements of less than 90 days and most are cancelable with a restocking penalty. The company has no long-term purchase contracts or minimum purchase obligations with any supplier.

The company has no activities, obligations or exposures associated with off-balance sheet arrangements.

Related Party Transactions

From January 3, 2016 through the date hereof, there were no transactions between the company, its directors and executive officers that are required to be disclosed pursuant to Item 404 of Regulation S-K, promulgated under the Securities and Exchange Act of 1934, as amended.

Critical Accounting Policies and Estimates

Management's discussion and analysis of financial condition and results of operations are based upon the company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the company to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses as well as related disclosures. On an ongoing basis, the company evaluates its estimates and judgments based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions and any such differences could be material to our consolidated financial statements.

Revenue Recognition. At the Commercial Foodservice Equipment Group and the Residential Kitchen Equipment Group, the company recognizes revenue on the sale of its products where title transfers and when risk of loss has passed to the customer, which occurs at the time of shipment, and collectibility is reasonably assured. The sale prices of the products sold are fixed and determinable at the time of shipment. Sales are reported net of sales returns, sales incentives and cash discounts based on prior experience and other quantitative and qualitative factors.

At the Food Processing Equipment Group, the company enters into long-term sales contracts for certain products that are often significant relative to the business. Revenue under these long-term sales contracts is recognized using the percentage of completion method defined within ASC 605-35 “Construction-Type and Production-Type Contracts” due to the length of time to fully manufacture and assemble the equipment. The company measures revenue recognized based on the ratio of actual labor hours incurred in relation to the total estimated labor hours to be incurred related to the contract. Because estimated labor hours to complete a project are based upon forecasts using the best available information, the actual hours may differ from original estimates. The percentage of completion method of accounting for these contracts most accurately reflects the status of these uncompleted contracts in the company's financial statements and most accurately measures the matching of revenues with expenses. At the time a loss on a contract becomes known, the amount of the estimated loss is recognized in the consolidated financial statements. Revenue for sales of products and services not covered by long-term sales contracts is recognized when risk of loss has passed to the customer, which occurs at the time of shipment, and collectibility is reasonably assured. The sale prices of the products sold are fixed and determinable at the time of shipment. Sales are reported net of sales returns, sales incentives and cash discounts based on prior experience and other quantitative and qualitative factors.

Inventories. Inventories are stated at the lower of cost or market using the first-in, first-out method for the majority of the company’s inventories. The company evaluates the need to record valuation adjustments for inventory on a regular basis. The company’s policy is to evaluate all inventories including raw material, work-in-process, finished goods, and spare parts. Inventory in excess of estimated usage requirements is written down to its estimated net realizable value. Inherent in the estimates of net realizable value are estimates related to our future manufacturing schedules, customer demand, possible alternative uses, and ultimate realization of potentially excess inventory.

Goodwill and Other Intangibles. The company’s business acquisitions result in the recognition of goodwill and other intangible assets, which are a significant portion of the company’s total assets. The company recognizes goodwill and other intangible assets under the guidance of ASC Topic 350-10, “Intangibles — Goodwill and Other.” Goodwill represents the excess of acquisition costs over the fair value of the net tangible assets and identifiable intangible assets acquired in a business combination. Identifiable intangible assets are recognized separately from goodwill and include trademarks and trade names, technology, customer relationships and other specifically identifiable assets. Trademarks and trade names are deemed to be indefinite-lived. Goodwill and indefinite-lived intangible assets are not amortized, but are subject to impairment testing. On an annual basis, or more frequently if triggering events occur, the company compares the estimated fair value to the carrying value to determine if a potential goodwill impairment exists. If the fair value is less than its carrying value, an impairment loss, if any, is recorded for the difference between the implied fair value and the carrying value of goodwill. In estimating the fair value of specific intangible assets, management relies on a number of factors, including operating results, business plans, economic projections, anticipated future cash flows, comparable transactions and other market data. There are inherent uncertainties related to these factors and management’s judgment in applying them in the impairment tests of goodwill and other intangible assets.

Pension Benefits. The company provides pension benefits to certain employees and accounts for these benefits in accordance with ASC 715, "Compensation-Retirement Benefits". For financial reporting purposes, long-term assumptions are developed through consultations with actuaries. Such assumptions include the expected long-term rate of return on plan assets and discount rates.

The amount of unrecognized actuarial gains and losses recognized in the current year's operations is based on amortizing the unrecognized gains or losses for each plan that exceed the larger of 10% of the projected benefit obligation or the fair value of plan assets, also known as the corridor. The amount of unrecognized gain or loss that exceeds the corridor is amortized over the average future service of the plan participants or the average life expectancy of inactive plan participants for plans where all or almost all of the plan participants are inactive. While we believe that our assumptions are appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our pension obligations and our future expense.

Income taxes. The company provides deferred income tax assets and liabilities based on the estimated future tax effects of differences between the financial and tax bases of assets and liabilities based on currently enacted tax laws. The company's deferred and other tax balances are based on management's interpretation of the tax regulations and rulings in numerous taxing jurisdictions. Income tax expense and liabilities recognized by the company also reflect its best estimates and assumptions regarding, among other things, the level of future taxable income, the effect of the company's various tax planning strategies and uncertain tax positions. Future tax authority rulings and changes in tax laws, changes in projected levels of taxable income and future tax planning strategies could affect the actual effective tax rate and tax balances recorded by the company. The company follows the provisions under ASC 740-10-25 that provides a recognition threshold and measurement criteria for the financial statement recognition of a tax benefit taken or expected to be taken in a tax return. Tax benefits are recognized only when it is more likely than not, based on the technical merits, that the benefits will be sustained on examination. Tax benefits that meet the more-likely-than-not recognition threshold are measured using a probability weighting of the largest amount of tax benefit that has greater than 50% likelihood of being realized upon settlement. Whether the more-likely-than-not recognition threshold is met for a particular tax benefit is a matter of judgment based on the individual facts and circumstances evaluated in light of all available evidence as of the balance sheet date.

New Accounting Pronouncements

In May 2014, the Financial Accounts Standards Board ("FASB") issued ASU No. 2014-09, "Revenue from Contracts with Customers". This update amends the current guidance on revenue recognition related to contracts with customers. Under ASU No. 2014-09, an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In 2016, the FASB issued additional updates: ASU No. 2016-10, 2016-11, 2016-12 and 2016-20. These updates provide further guidance and clarification on specific items within the previously issued update. In July 2015, the FASB decided to delay the effective date of the new revenue standard to be effective for interim and annual periods beginning on or after December 15, 2017 for public companies. Companies may elect to adopt the standard at the original effective date which, for the company is, for interim and annual periods beginning on or after December 15, 2016, but not earlier. The guidance can be applied using one of two retrospective application methods. The company will adopt this standard, as required, for fiscal year 2018 and expects to use the modified retrospective approach, with the cumulative effect, if any, recognized in the opening balance of retained earnings. The company is continuing to evaluate the impact the application of these ASU's will have, if any, on the company's financial position, results of operations or cash flows.

In June 2014, the FASB issued ASU No. 2014-12, "Compensation - Stock Compensation". This update requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update is effective for annual and corresponding interim reporting periods beginning on or after December 15, 2015. The adoption of this guidance did not have an impact on the company's financial position, results of operations or cash flows.

In January 2015, the FASB issued ASU No. 2015-01, "Income Statement - Extraordinary and Unusual Items". This update eliminates the concept of extraordinary items from the current guidance. This update is effective for annual and corresponding interim reporting periods beginning after December 15, 2015. The adoption of this guidance did not have an impact on the company's financial position, results of operations or cash flows.

In April 2015, the FASB issued ASU 2015-03, "Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs", which requires debt issuance costs to be recorded as a direct reduction of the debt liability on the balance sheet rather than as an asset. The standard is effective for fiscal years beginning after December 15, 2015. The new guidance was applied retrospectively to each prior period presented. The adoption of this guidance did not have an impact on the company's financial position, results of operations or cash flows.

In April 2015, the FASB issued ASU 2015-04, "Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets". This ASU is intended to provide a practical expedient for the measurement date of defined benefit plan assets and obligations. The practical expedient allows employers with fiscal year-end dates that do not fall on a calendar month-end (e.g., companies with a 52/53-week fiscal year) to measure pension and post-retirement benefit plan assets and obligations as of the calendar month-end date closest to the fiscal year-end. The FASB also provided a similar practical expedient for interim remeasurements for significant events. This ASU requires perspective application and is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those fiscal years. The adoption of this guidance did not have an impact on the company's financial position, results of operations or cash flows.

In July 2015, the FASB issued ASU 2015-11, “Simplifying the Measurement of Inventory,” which is intended to simplify the subsequent measurement of inventories by replacing the current lower of cost or market test with a lower of cost and net realizable value test. The guidance applies only to inventories for which cost is determined by methods other than last-in, first-out and the retail inventory method. Application of the standard, which should be applied prospectively, is required for the annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The company is evaluating the impact the application of this ASU will have, if any, on the company's financial position, results of operations or cash flows.

In August 2015, the FASB issued ASU 2015-15, “Interest - Imputation of Interest” which relates to the presentation of debt issuance costs. This standard clarifies the guidance set forth in FASB ASU 2015-03, which required that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the debt liability rather than as an asset. The new pronouncement clarifies that debt issuance costs related to line-of-credit arrangements could continue to be presented as an asset and be subsequently amortized over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the arrangement. The adoption of this guidance by the company did not result in a material reclassification of debt issuance costs.

In September 2015, the FASB issued ASU 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments”, which eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Instead, acquirers must recognize measurement-period adjustments during the period in which they determine the amounts, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. The ASU is effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The adoption of this guidance did not have an impact on the company's financial position, results of operations or cash flows.

In November 2015, the FASB issued ASU 2015-17 "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes". The amendments in ASU 2015-17 simplify the accounting for, and presentation of, deferred taxes by eliminating the need to separately classify the current amount of deferred tax assets or liabilities. Instead, aggregated deferred tax assets and liabilities are classified and reported as non-current assets or liabilities. The update is effective for annual reporting periods, and interim periods within those reporting periods, beginning after December 15, 2016. The company early adopted ASU 2015-17 effective April 3, 2016 on a prospective basis. Adoption of this ASU resulted in a reclassification of the company's net current deferred tax asset to the net non-current deferred tax liability in the company's Consolidated Balance Sheet as of July 2, 2016. No prior periods were retrospectively adjusted.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)". The amendments under this pronouncement will change the way all leases with a duration of one year of 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 capital lease liability. The right-of-use asset represents the lessee’s right to use, or control the use of, a specified asset for the specified lease term. The lease liability represents the lessee’s obligation to make lease payments arising from the lease, measured on a discounted basis. Based on certain characteristics, leases are classified as financing leases or operating leases. Financing lease liabilities, those that contain provisions similar to capitalized leases, are amortized like capital leases are under current accounting, as amortization expense and interest expense in the statement of operations. Operating lease liabilities are amortized on a straight-line basis over the life of the lease as lease expense in the statement of operations. This update is effective for annual reporting periods, and interim periods within those reporting periods, beginning after December 15, 2018. The company is currently evaluating the impact this standard will have on its policies and procedures pertaining to its existing and future lease arrangements, disclosure requirements and on the company's financial position, results of operations or cash flows.

In March 2016, the FASB issued ASU No. 2016-05, "Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships". The amendments in ASU 2016-05 clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require dedesignation of the hedging relationship provided that all other hedge accounting criteria continue to be met. The amendments in this update may be applied on either a prospective basis or a modified retrospective basis. This ASU is effective for annual reporting periods, and interim periods with those reporting periods, beginning after December 15, 2016. The company is evaluating the impact the application of this ASU will have, if any, on the company's financial position, results of operations or cash flows.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718)". The amendments in ASU-09 simplify the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for annual reporting periods, and interim periods with those reporting periods, beginning after December 15, 2016. The company is evaluating the impact the application of this ASU will have, if any, on the company's financial position, results of operations or cash flows; however the company does not expect the adoption of this ASU to be material.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments". The amendments in ASU-15 address eight specific cash flow classification issues to reduce current and potential future diversity in practice. This ASU is effective for annual reporting periods, and interim periods with those reporting periods, beginning after December 15, 2017. The company is evaluating the impact the application of this ASU will have, if any, on the company's cash flows.

In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory". The amendments in ASU-16 prohibit the recognition of current and deferred income taxes for an intra-entity asset transfer other than inventory until the asset has been sold to an outside party. This ASU is effective for annual reporting periods, and interim periods with those reporting periods, beginning after December 15, 2017. The company is evaluating the impact the application of this ASU will have, if any, on the company's financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business". The amendments in ASU-01 clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of businesses. This ASU is effective for annual reporting periods, and interim periods with those reporting periods, beginning after December15, 2017. The company is evaluating the impact the application of this ASU. The company does not expect the adoption of this ASU to have a material impact on its financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU No. 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 financial position, results of operations or cash flows.

Certain Risk Factors That May Affect Future Results

An investment in shares of the company's common stock involves risks. The company believes the risks and uncertainties described in "Item 1A. Risk Factors" and in "Special Note Regarding Forward-Looking Statements" are the material risks it faces. Additional risks and uncertainties not currently known to the company or that it currently deems immaterial may impair its business operations. If any of the risks identified in "Item 1A. Risk Factors" actually occurs, the company's business, results of operations and financial condition could be materially adversely affected, and the trading price of the company's common stock could decline.

Item 7A. Quantitative and Qualitative Disclosure 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:

	Variable Rate Debt
2017	$ 5,883
2018	292
2019	113
2020	113
2020 and thereafter	725,725
	$ 732,126

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"), with the potential under certain circumstances to increase the amount of the Credit Facility to $3.0 billion. As of December 31, 2016, the company had $725.5 million of borrowings outstanding under the Credit Facility, including $701.0 million of borrowings in U.S. Dollars and $24.5 million of borrowings denominated in British Pounds. The company also has $10.2 million in outstanding letters of credit as of December 31, 2016, which reduces the borrowing availability under the Credit Facility. Remaining borrowing availability under this facility was $1.8 billion at December 31, 2016.

At December 31, 2016, borrowings under the Credit Facility accrued interest at a rate of 1.25% above LIBOR per annum or 0.25% 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 2.00% for the period. The interest rates on borrowings under the Credit Facility may be adjusted quarterly based on the company's funded debtless 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 0.20% per annum as of December 31, 2016.

In addition, the company has other international credit facilities to fund working capital needs outside the United States and the United Kingdom. At December 31, 2016, these foreign credit facilities amounted to $6.4 million in U.S. Dollars with a weighted average per annum interest rate of approximately 10.21%.

The company uses floating-to-fixed interest rate swap agreements to hedge variable interest rate risk associated with the Credit Facility. At December 31, 2016, the company had outstanding floating-to-fixed interest rate swaps totaling $135.0 million notional amount carrying an average interest rate of 0.91% maturing in less than 12 months and $324.0 million notional amount carrying an average interest rate of 1.30% that mature in more than 12 months but less than 84 months.

The senior revolving facility matures on July 28, 2021, and accordingly has been classified as a long-term liability on the 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 Debtless 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 December 31, 2016, 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 December 31, 2016, the fair value of these instruments was an asset of $8.7 million. The change in fair value of these swap agreements in fiscal 2016 was a gain of $5.4 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 derivative financial instruments, principally foreign currency forward purchase and sale contracts with terms of less than one year, to hedge its exposure to changes in foreign currency exchange rates. The company’s primary hedging activities are to mitigate its exposure to changes in exchange rates on intercompany and third party trade receivables and payables. The company does not currently enter into derivative financial instruments for speculative purposes. In managing its foreign currency exposures, the company identifies and aggregates naturally occurring offsetting positions and then hedges residual balance sheet exposures. The potential 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 company accounts for its derivative financial instruments in accordance with ASC 815, "Derivatives and Hedging." In accordance with ASC 815, these instruments are recognized on the balance sheet as either an asset or a liability measured at fair value. Changes in the market value and the related foreign exchange gains and losses are recorded in the statement of earnings.

Item 8. Financial Statements and Supplementary Data

All other schedules for which provision is made to applicable regulation of the Securities and Exchange Commission are not required under the related instruction or are inapplicable and, therefore, have been omitted.

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

The Middleby Corporation and Subsidiaries

We have audited the Middleby Corporation and subsidiaries internal control over financial reporting as of December 31, 2016, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). The Middleby Corporation and subsidiaries' management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Form 10-K. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed 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. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

As indicated in the Company's accompanying “Management's Report on Internal Control over Financial Reporting”, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of Follett Corporation which are included in the 2016 consolidated financial statements of the Middleby Corporation and subsidiaries and constituted 7.7% of total assets and 16.4% of net assets, respectively, as of December 31, 2016, and 4.5% of net sales and 3.7% of net earnings, respectively, for the year then ended. Our audit of internal control over financial reporting of the Middleby Corporation and subsidiaries also did not include an evaluation of the internal control over financial reporting of Follett Corporation.

In our opinion, the Middleby Corporation and subsidiaries maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Middleby Corporation and subsidiaries as of December 31, 2016 and January 2, 2016, and the related consolidated statements of earnings, comprehensive income, stockholders' equity, and cash flows for each of the three years in the period ended December 31, 2016 of the Middleby Corporation and subsidiaries and our report dated March 1, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois

March 1, 2017

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

The Middleby Corporation and Subsidiaries

We have audited the accompanying consolidated balance sheets of the Middleby Corporation and subsidiaries as of December 31, 2016 and January 2, 2016, and the related consolidated statements of earnings, comprehensive income, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2016. Our audits also include the financial statement schedule listed in Item 8. These financial statements and schedule are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements and schedule based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Middleby Corporation and subsidiaries at December 31, 2016 and January 2, 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2016, in conformity with U.S. generally accepted accounting principles. Also, in our opinion, the related financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Middleby Corporation and subsidiaries internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated March 1, 2017 expressed an unqualified opinion thereon.

/s/ Ernst & Young LLP

Chicago, Illinois

March 1, 2017

THE MIDDLEBY CORPORATION AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2016 AND JANUARY 2, 2016
(amounts in thousands, except share data)

	2016	2015
ASSETS		
Current assets:		
Cash and cash equivalents	$ 68,485	$ 55,528
Accounts receivable, net	325,868	282,534
Inventories, net	368,243	354,150
Prepaid expenses and other	42,704	39,801
Prepaid taxes	6,399	11,426
Deferred taxes	—	51,723
Total current assets	811,699	795,162
Property, plant and equipment, net	221,571	199,750
Goodwill	1,092,722	983,339
Other intangibles, net	696,171	749,430
Long-term deferred tax assets	51,699	11,438
Other assets	43,274	22,032
Total assets	$ 2,917,136	$ 2,761,151
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$ 5,883	$ 32,059
Accounts payable	146,921	157,758
Accrued expenses	335,605	320,228
Total current liabilities	488,409	510,045
Long-term debt	726,243	734,002
Long-term deferred tax liability	77,760	113,010
Accrued pension benefits	322,988	207,490
Other non-current liabilities	36,418	29,774
Stockholders' equity:		
Preferred stock, $0.01 par value; none issued	—	—
Common stock, $0.01 par value, 62,445,315 and 62,168,346 shares issued in 2016 and 2015, respectively	144	144
Paid-in capital	355,287	328,686
Treasury stock at cost; 4,905,549 and 4,862,264 shares in 2016 and 2015, respectively	(205,280)	(200,862)
Retained earnings	1,399,490	1,115,274
Accumulated other comprehensive loss	(284,323)	(76,412)
Total stockholders' equity	1,265,318	1,166,830
Total liabilities and stockholders' equity	$ 2,917,136	$ 2,761,151

The accompanying Notes to Consolidated Financial Statements
are an integral part of these consolidated financial statements.

THE MIDDLEBY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2016, JANUARY 2, 2016
AND JANUARY 3, 2015
(amounts in thousands, except per share data)

	2016	2015	2014
Net sales	$ 2,267,852	$ 1,826,598	$ 1,636,538
Cost of sales	1,366,672	1,120,093	995,953
Gross profit	901,180	706,505	640,585
Selling and distribution expenses	223,883	193,353	182,578
General and administrative expenses	220,548	181,795	157,016
Restructuring expenses	10,524	28,754	7,078
Gain on litigation settlement	—	—	(6,519)
Income from operations	446,225	302,603	300,432
Interest expense and deferred financing amortization, net	23,880	16,967	15,592
Other expense, net	1,040	4,469	4,050
Earnings before income taxes	421,305	281,167	280,790
Provision for income taxes	137,089	89,557	87,478
Net earnings	$ 284,216	$ 191,610	$ 193,312
Net earnings per share:			
Basic	$ 4.98	$ 3.36	$ 3.41
Diluted	$ 4.98	$ 3.36	$ 3.40
Weighted average number of shares			
Basic	57,030	56,951	56,764
Dilutive common stock equivalents	55	22	20
Diluted	57,085	56,973	56,784

The accompanying Notes to Consolidated Financial Statements
are an integral part of these consolidated financial statements.

THE MIDDLEBY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2016, JANUARY 2, 2016
AND JANUARY 3, 2015
(amounts in thousands)

	2016	2015	2014
Net earnings	$ 284,216	$ 191,610	$ 193,312
Other comprehensive income:			
Foreign currency translation adjustments	(63,569)	(28,187)	(18,770)
Pension liability adjustment, net of tax	(149,815)	(17,039)	(4,420)
Unrealized gain on interest rate swaps, net of tax	5,473	245	394
Comprehensive income	$ 76,305	$ 146,629	$ 170,516

The accompanying Notes to Consolidated Financial Statements
are an integral part of these consolidated financial statements.

THE MIDDLEBY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY FOR THE FISCAL YEARS ENDED DECEMBER 31, 2016, JANUARY 2, 2016 AND JANUARY 3, 2015

(amounts in thousands)

	Common Stock	Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income/(loss)	Total Stockholders' Equity
Balance, December 28, 2013	**$ 144**	**$ 268,229**	**$ (151,743)**	**$ 730,352**	**$ (8,635)**	**$ 838,347**
Net earnings	—	—	—	193,312	—	193,312
Currency translation adjustments	—	—	—	—	(18,770)	(18,770)
Change in unrecognized pension benefit costs, net of tax of $3,302	—	—	—	—	(4,420)	(4,420)
Unrealized gain on interest rate swap, net of tax of $545	—	—	—	—	394	394
Stock compensation	—	16,690	—	—	—	16,690
Tax benefit on stock compensation	—	25,490	—	—	—	25,490
Purchase of treasury stock	—	—	(44,283)	—	—	(44,283)
Balance, January 3, 2015	**$ 144**	**$ 310,409**	**$ (196,026)**	**$ 923,664**	**$ (31,431)**	**$ 1,006,760**
Net earnings	—	—	—	191,610	—	191,610
Currency translation adjustments	—	—	—	—	(28,187)	(28,187)
Change in unrecognized pension benefit costs, net of tax of $(3,740)	—	—	—	—	(17,039)	(17,039)
Unrealized gain on interest rate swap, net of tax of $163	—	—	—	—	245	245
Stock compensation	—	15,863	—	—	—	15,863
Tax benefit on stock compensation	—	2,414	—	—	—	2,414
Purchase of treasury stock	—	—	(4,836)	—	—	(4,836)
Balance, January 2, 2016	**$ 144**	**$ 328,686**	**$ (200,862)**	**$ 1,115,274**	**$ (76,412)**	**$ 1,166,830**
Net earnings	—	—	—	284,216	—	284,216
Currency translation adjustments	—	—	—	—	(63,569)	(63,569)
Change in unrecognized pension benefit costs, net of tax of $(30,717)	—	—	—	—	(149,815)	(149,815)
Unrealized gain on interest rate swap, net of tax of $3,649	—	—	—	—	5,473	5,473
Stock compensation	—	27,905	—	—	—	27,905
Tax benefit on stock compensation	—	(1,304)		—	—	(1,304)
Purchase of treasury stock	—	—	(4,418)	—	—	(4,418)
Balance, December 31, 2016	**$ 144**	**$ 355,287**	**$ (205,280)**	**$ 1,399,490**	**$ (284,323)**	**$ 1,265,318**

The accompanying Notes to Consolidated Financial Statements are an integral part of these consolidated financial statements.

THE MIDDLEBY CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2016, JANUARY 2, 2016
AND JANUARY 3, 2015
(amounts in thousands)

	2016	2015	2014
Cash flows from operating activities—			
Net earnings	$ 284,216	$ 191,610	$ 193,312
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation and amortization	58,234	54,074	41,252
Non-cash share-based compensation	27,905	15,864	16,690
Deferred income taxes	21,363	1,919	15,341
Changes in assets and liabilities, net of acquisitions			
Accounts receivable, net	(33,908)	17,112	(20,577)
Inventories, net	(22,246)	7,826	(2,064)
Prepaid expenses and other assets	(11,550)	(5,685)	(384)
Accounts payable	(7,730)	(18,036)	(7,872)
Accrued expenses and other liabilities	(22,174)	(15,092)	(1,816)
Net cash provided by operating activities	294,110	249,592	233,882
Cash flows from investing activities—			
Additions to property and equipment	(24,817)	(22,362)	(13,143)
Acquisitions, net of cash acquired	(210,921)	(348,625)	(219,915)
Net cash used in investing activities	(235,738)	(370,987)	(233,058)
Cash flows from financing activities—			
Net (repayments) proceeds under revolving credit facilities	(2,482)	145,500	18,900
Net (repayments) proceeds under foreign bank loan	(26,821)	(6,058)	8,815
Net (repayments) under other debt arrangement	(35)	(262)	(35)
Repurchase of treasury stock	(4,418)	(4,836)	(44,283)
Debt issuance costs	(6,310)	—	—
Excess tax benefit related to share-based compensation	(1,304)	2,414	25,490
Net cash (used in) provided by financing activities	(41,370)	136,758	8,887
Effect of exchange rates on cash and cash equivalents	(4,045)	(3,780)	(2,660)
Changes in cash and cash equivalents—			
Net increase in cash and cash equivalents	12,957	11,583	7,051
Cash and cash equivalents at beginning of year	55,528	43,945	36,894
Cash and cash equivalents at end of year	$ 68,485	$ 55,528	$ 43,945

The accompanying Notes to Consolidated Financial Statements
are an integral part of these consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS FOR THE FISCAL YEARS ENDED DECEMBER 31, 2016, JANUARY 2, 2016 AND JANUARY 3, 2015

(1) NATURE OF OPERATIONS

The Middleby Corporation (the "company") is engaged in the design, manufacture and sale of commercial foodservice, food processing equipment and residential kitchen equipment. The company manufactures and assembles this equipment at twenty-eight U.S. and twenty-three international manufacturing facilities. The company operates in three business segments: 1) the Commercial Foodservice Equipment Group, 2) the Food Processing Equipment Group and 3) the Residential Kitchen Equipment Group.

The Commercial Foodservice Equipment Group has a broad portfolio of cooking and warming equipment, which enables it to serve virtually any cooking or warming application within a commercial kitchen or foodservice operation. This cooking and warming equipment is used across all types of foodservice operations, including quick-service restaurants, full-service restaurants, convenience stores, retail outlets, hotels and other institutions. The products offered by 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, warming equipment, heated cabinets, charbroilers, ventless cooking systems, kitchen ventilation, induction cooking equipment, countertop cooking equipment, toasters, professional refrigerators, coldrooms, ice machines, freezers and beverage dispensing equipment.

The Food Processing Equipment Group offers a broad portfolio of processing solutions for customers producing pre-cooked meat products, such as hot dogs, dinner sausages, poultry and lunchmeats and baked goods such as muffins, cookies and bread. Through its broad line of products, the company is able to deliver a wide array of cooking solutions to service a variety of food processing requirements demanded by its customers. The company can offer highly integrated solutions that provide a food processing operation a uniquely integrated solution providing for the highest level of food quality, product consistency, and reduced operating costs resulting from increased product yields, increased capacity and greater throughput and reduced labor costs through automation. The products offered by this group include a wide array of cooking and baking solutions, including batch ovens, baking ovens, proofing ovens, conveyor ovens, continuous processing ovens, frying systems and automated thermal processing systems. The company also provides a comprehensive portfolio of complementary food preparation equipment such as grinders, slicers, emulsifiers, mixers, blenders, battering equipment, breading equipment, water cutting systems, food presses, and forming equipment, as well as a variety of food safety, food handling, freezing and packaging equipment. This portfolio of equipment can be integrated to provide customers a highly efficient and customized solution.

The Residential Kitchen Equipment Group has a broad portfolio of innovative and professional-style residential kitchen equipment. The products offered by this group include ranges, cookers, stoves, ovens, refrigerators, dishwashers, microwaves, cooktops, wine coolers, ice machines, warming equipment, ventilation equipment, and outdoor equipment.

(2) ACQUISITIONS AND PURCHASE ACCOUNTING

The company operates in a highly fragmented industry and has completed numerous acquisitions over the past several years as a component of its growth strategy. The company has acquired industry leading brands and technologies to position itself as a leader in the commercial foodservice equipment, food processing equipment and residential kitchen equipment industries.

The company has accounted for all business combinations using the acquisition method to record a new cost basis for the assets acquired and liabilities assumed. The difference between the purchase price and the fair value of the assets acquired and liabilities assumed has been recorded as goodwill in the financial statements. The results of operations are reflected in the consolidated financial statements of the company from the dates of acquisition.

Desmon

On January 7, 2015, the company completed its acquisition of all of the capital stock of Desmon Food Service Equipment Company ("Desmon"), a leading manufacturer of blast chillers and refrigeration for the commercial foodservice industry located in Nusco, Italy, for a purchase price of approximately $13.5 million, net of cash acquired. An additional payment is also due upon the achievement of certain financial targets. During the fourth quarter of 2015, the company finalized the working capital provision provided by the purchase agreement resulting in a return from the seller of $0.4 million.

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

	(as initially reported) Jan 7, 2015	Measurement Period Adjustments	(as adjusted) Jan 7, 2015
Cash	$ 441	$ (12)	$ 429
Current deferred tax asset	535	—	535
Current assets	8,639	(1,105)	7,534
Property, plant and equipment	7,989	—	7,989
Goodwill	7,175	53	7,228
Other intangibles	3,129	(899)	2,230
Current liabilities	(8,668)	998	(7,670)
Long-term deferred tax liability	(2,389)	282	(2,107)
Other non-current liabilities	(2,463)	269	(2,194)
Consideration paid at closing	$ 14,388	$ (414)	$ 13,974
Contingent consideration	2,416	(269)	2,147
Net assets acquired and liabilities assumed	$ 16,804	$ (683)	$ 16,121

The current deferred tax assets and long term deferred tax liabilities amounted to $0.5 million and $2.1 million, respectively. These net liabilities are comprised of $0.7 million of deferred tax liabilities related to the difference between the book and tax basis of identifiable intangible assets, $1.1 million of liabilities arising from the difference between the book and tax basis of tangible asset and liability accounts, net of $0.2 million of assets related to foreign net operating loss carry forwards.

The goodwill and $1.3 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350 "Intangibles - Goodwill and Other". Other intangibles also includes $0.6 million allocated to customer relationships and $0.3 million allocated to developed technology, which are to be amortized over periods of 9 years and 7 years, respectively. Goodwill and other intangibles of Desmon are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

The Desmon 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 within the second quarter of each of the fiscal years 2016, 2017 and 2018, respectively, if Desmon exceeds certain sales targets for fiscal 2015, 2016 and 2017, respectively. The contractual obligation associated with the contingent earnout provision recognized on the acquisition date is $2.1 million.

Goldstein Eswood

On January 30, 2015, the company completed its acquisition of substantially all of the assets of J. Goldstein & Co. Pty. Ltd. ("Goldstein") and Eswood Australia Pty. Ltd. ("Eswood" and together with Goldstein, "Goldstein Eswood") for a purchase price of approximately $27.4 million. Goldstein is a leading manufacturer of cooking equipment including ranges, ovens, griddles, fryers and warming equipment and Eswood is a leading manufacturer of dishwashing equipment, both for the commercial foodservice industry and located in Smithfield, Australia. An additional payment is also due upon the achievement of certain financial targets. During the third quarter of 2015, the company finalized the working capital provision provided by the purchase agreement resulting in no adjustment to the original purchase price.

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

	(as initially reported) Jan 30, 2015	Measurement Period Adjustments	(as adjusted) Jan 30, 2015
Current assets	$ 8,036	$ —	$ 8,036
Property, plant and equipment	8,690	—	8,690
Goodwill	8,493	(2,727)	5,766
Other intangibles	5,648	3,113	8,761
Current liabilities	(1,806)	(202)	(2,008)
Other non-current liabilities	(1,655)	(184)	(1,839)
Consideration paid at closing	$ 27,406	$ —	$ 27,406
Contingent consideration	1,655	183	1,838
Net assets acquired and liabilities assumed	$ 29,061	$ 183	$ 29,244

The goodwill and $2.8 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also includes $5.9 million allocated to customer relationships and less than $0.1 million allocated to backlog, which are to be amortized over periods of 7 years and 3 months, respectively. Goodwill and other intangibles of Goldstein Eswood are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are expected to be deductible for tax purposes.

The Goldstein Eswood 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 within the second quarter of each of the fiscal years 2016 and 2017, respectively, if Goldstein Eswood exceeds certain sales targets for fiscal 2015 and 2016, respectively. The contractual obligation associated with the contingent earnout provision recognized on the acquisition date is $1.8 million.

Marsal

On February 10, 2015, the company completed its acquisition of certain assets of Marsal & Sons, Inc. ("Marsal"), a leading manufacturer of deck ovens for the commercial foodservice industry, for a purchase price of approximately $5.5 million. During the second quarter of 2015, the company finalized the working capital provision provided by the purchase agreement resulting in no adjustment to the purchase price.

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

	(as initially reported) Feb 10, 2015	Measurement Period Adjustments	(as adjusted) Feb 10, 2015
Current assets	$ 455	$ —	$ 455
Property, plant and equipment	201	(6)	195
Goodwill	3,012	6	3,018
Other intangibles	2,027	—	2,027
Current liabilities	(195)	—	(195)
Net assets acquired and liabilities assumed	$ 5,500	$ —	$ 5,500

The goodwill and $1.3 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also includes $0.5 million allocated to customer relationships, $0.1 million allocated to developed technology and less than $0.1 million allocated to backlog, which are to be amortized over periods of 4 years, 5 years and 3 months, respectively. Goodwill and other intangibles of Marsal are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are expected to be deductible for tax purposes.

Thurne

On April 7, 2015, the company completed its acquisition of certain assets of the High Speed Slicing business unit of Marel ("Thurne"), a leading manufacturer of slicing equipment for the food processing industry located in Norwich, United Kingdom, for a purchase price of approximately $12.6 million. During the second quarter of 2015, the company finalized the working capital provision provided for by the purchase agreement resulting in a refund from the seller of $2.7 million.

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

	(as initially reported) Apr 7, 2015	Measurement Period Adjustments	(as adjusted) Apr 7, 2015
Current assets	$ 3,419	$ (275)	$ 3,144
Property, plant and equipment	3,334	—	3,334
Goodwill	609	2,378	2,987
Other intangibles	3,625	(2,024)	1,601
Current liabilities	(1,115)	—	(1,115)
Net assets acquired and liabilities assumed	$ 9,872	$ 79	$ 9,951

The goodwill and $0.4 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also includes $0.6 million allocated to customer relationships, $0.6 million allocated to developed technology and $0.1 million allocated to backlog, which are to be amortized over periods of 9 years, 7 years, and 3 months, respectively. Goodwill and other intangibles of Thurne are allocated to the Food Processing Equipment Group for segment reporting purposes. These assets are expected to be deductible for tax purposes.

Induc

On May 30, 2015, the company completed its acquisition of certain assets of the Induc Commercial Electronics Co. Ltd. ("Induc"), a leading manufacturer of induction cooking equipment for the commercial foodservice industry located in Qingdao, China, for a purchase price of approximately $10.6 million. An additional deferred payment of approximately $1.5 million is also due to the seller on the second anniversary of the acquisition. An additional payment is also due upon the achievement of certain financial targets. During the second quarter of 2016, the company finalized the working capital provision provided for by the purchase agreement resulting in an additional payment to the seller of $0.2 million.

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

	(as initially reported) May 30, 2015	Measurement Period Adjustments	(as adjusted) May 30, 2015
Current assets	$ 1,705	$ (325)	$ 1,380
Property, plant and equipment	536	353	889
Goodwill	13,496	(979)	12,517
Other intangibles	1,500	(300)	1,200
Other assets	32	(32)	—
Current liabilities	(854)	854	—
Other non-current liabilities	(5,793)	586	(5,207)
Consideration paid at closing	$ 10,622	$ 157	$ 10,779
Deferred payment	1,516	(44)	1,472
Contingent consideration	4,276	(541)	3,735
Net assets acquired and liabilities assumed	$ 16,414	$ (428)	$ 15,986

The goodwill and $0.5 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also includes $0.7 million allocated to customer relationships, which is to be amortized over a period of 9 years. Goodwill and other intangibles of Induc are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are expected to be deductible for tax purposes.

The Induc 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 within the first quarter of each of the fiscal years 2018, 2019 and 2020, respectively, if Induc exceeds certain sales and earnings targets for fiscal 2017, 2018 and 2019, respectively. The contractual obligation associated with the contingent earnout provision recognized on the acquisition date is $3.7 million.

AGA

On September 23, 2015, the company completed its acquisition of all of the capital stock of AGA Rangemaster Group plc ("AGA") a leading manufacturer of residential kitchen equipment including ranges, ovens and refrigeration for a purchase price of approximately $184.7 million, net of cash acquired. AGA is headquartered in Leamington Spa, United Kingdom. During the fourth quarter of 2015, the company completed the purchase of the minority interest of an AGA subsidiary for approximately $4.3 million.

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

	(as initially reported) Sep 23, 2015	Measurement Period Adjustments	(as adjusted) Sep 23, 2015
Cash	$ 15,316	$ 1,013	$ 16,329
Current assets	163,216	(27,193)	136,023
Property, plant and equipment	61,423	16,309	77,732
Goodwill	144,645	71,049	215,694
Other intangibles	190,000	(67,020)	122,980
Deferred tax asset	5,306	9,439	14,745
Other assets	1,573	978	2,551
Current portion long-term debt	(30,703)	21	(30,682)
Current liabilities	(147,279)	(16,929)	(164,208)
Long term debt	(138)	(89)	(227)
Other non-current liabilities	(202,312)	12,422	(189,890)
Net assets acquired and liabilities assumed	$ 201,047	$ —	$ 201,047

The long-term deferred tax asset amounted to $14.7 million. These net assets are comprised of $35.7 million of assets related to pension liabilities, $2.4 million of assets related to federal net operating loss carry forwards and $3.5 million of assets related to the difference between the book and tax basis of tangible assets and liability accounts, net of $26.9 million of deferred tax liabilities related to the difference between the book and tax basis of identifiable intangible assets. Net operating loss carryforwards are subject to carryforward limitations.

The goodwill and $89.9 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also includes $32.2 million allocated to customer relationships and $0.8 million allocated to backlog, which are to be amortized over a period of 7 years and 3 months, respectively. Goodwill and other intangibles of AGA are allocated to the Residential Kitchen Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

Lynx

On December 15, 2015, the company completed its acquisition of all of the capital stock of Lynx Grills, Inc. ("Lynx"), a leading manufacturer of premium residential outdoor equipment located in Downey, California, for a purchase price of approximately $84.0 million, net of cash acquired. During the third quarter of 2016, the company finalized the working capital provision provided for by the purchase agreement resulting in an additional payment to the seller of $0.3 million.

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

	(as initially reported) Dec 15, 2015	Preliminary Measurement Period Adjustments	(as adjusted) Dec 15, 2015
Cash	$ 276	$ —	$ 276
Current deferred tax asset	467	1,075	1,542
Current assets	18,630	(296)	18,334
Property, plant and equipment	1,690	—	1,690
Goodwill	42,502	(4,600)	37,902
Other intangibles	39,800	7,247	47,047
Other assets	130	—	130
Current liabilities	(6,208)	(1,376)	(7,584)
Long term deferred tax liability	(12,589)	(151)	(12,740)
Other non-current liabilities	(666)	(1,613)	(2,279)
Net assets acquired and liabilities assumed	$ 84,032	$ 286	$ 84,318

The current deferred tax assets and long term deferred tax liabilities amounted to $1.5 million and $12.7 million, respectively. These net liabilities are comprised of $16.7 million of deferred tax liabilities related to the difference between book and tax basis of identifiable intangible assets, net of $4.2 million related to federal and state net operating loss carryforwards and $1.3 million of assets arising from the difference between the book and tax basis of tangible assets and liability accounts. Federal and state net operating loss carryforwards are subject to carryforward limitations.

The goodwill and $31.4 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also includes $15.6 million allocated to customer relationships and less than $0.1 million allocated to backlog, which are to be amortized over a period of 8 years and 3 months, respectively. Goodwill and other intangibles of Lynx are allocated to the Residential Kitchen Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

Emico

On May 20, 2016, the company completed its acquisition of certain assets of Emico Automated Bakery Equipment Solutions ("Emico"), manufacturer of high speed dough make-up bakery equipment located in Sante Fe Springs, California, for a purchase price of approximately $1.0 million. Additional deferred payments of approximately $1.6 million in aggregate are also due to the seller during the two year period subsequent to the acquisition.

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) May 20, 2016	Preliminary Measurement Period Adjustments	(as adjusted) May 20, 2016
Current assets	$ 746	(65)	681
Goodwill	1,816	142	1,958
Current liabilities	(934)	(40)	(974)
Other non-current liabilities	(628)	(37)	(665)
Consideration paid at closing	$ 1,000	$ —	$ 1,000
Deferred payments	1,559	77	1,636
Net assets acquired and liabilities assumed	$ 2,559	$ 77	$ 2,636

The goodwill is subject to the non-amortization provisions of ASC 350 and is 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.

Follett

On May 31, 2016, the company completed its acquisition of substantially all of the assets of Follett Corporation ("Follett"), a leading manufacturer of ice machines, ice and water dispensing equipment, ice storage and transport products and medical grade refrigeration products for the foodservice and healthcare industries headquartered in Easton, Pennsylvania, for a purchase price of approximately $207.7 million, net of cash acquired. During the first quarter of 2017, the company finalized the working capital provision provided for by the purchase agreement resulting in an additional payment to the seller of $0.7 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) May 31, 2016	Preliminary Measurement Period Adjustments	(as adjusted) May 31, 2016
Cash	$ 22,620	$ 1,359	$ 23,979
Current assets	41,602	(72)	41,530
Property, plant and equipment	19,868	—	19,868
Goodwill	76,220	752	76,972
Other intangibles	82,450	—	82,450
Other assets	1,358	—	1,358
Current liabilities	(11,779)	(2,039)	(13,818)
Other non-current liabilities	(616)	—	(616)
Net assets acquired and liabilities assumed	$ 231,723	$ —	$ 231,723

The goodwill and $55.0 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also includes $22.5 million allocated to customer relationships, $4.5 million allocated to developed technology and $0.5 million allocated to backlog, which are to be amortized over periods of 6 years, 6 years, and 3 months, respectively. 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 years ended December 31, 2016 and January 2, 2016, assumes the 2015 acquisitions of Goldstein Eswood, Marsal, Induc, Thurne, AGA and Lynx and the 2016 acquisition of Follett were completed on January 4, 2015 (first day of fiscal 2015). The following pro forma results include adjustments to reflect additional interest expense to fund the acquisition, amortization of intangibles associated with the acquisition, and the effects of adjustments made to the carrying value of certain assets (in thousands, except per share data):

	December 31, 2016	January 2, 2016
Net sales	$ 2,335,352	$ 2,305,622
Net earnings	288,875	195,982
Net earnings per share:		
Basic	5.07	3.44
Diluted	5.06	3.44

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 Goldstein Eswood, Marsal, Induc, Thurne, AGA, Lynx and Follett.

(3) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The consolidated financial statements include the accounts of the company and its wholly-owned subsidiaries. All intercompany accounts and transactions have been eliminated in consolidation. The company's consolidated financial statements 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 estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses as well as related disclosures. Significant items that are subject to such estimates and judgments include allowances for doubtful accounts, reserves for excess and obsolete inventories, long-lived and intangible assets, warranty reserves, insurance reserves, income tax reserves and post-retirement obligations. On an ongoing basis, the company evaluates its estimates and assumptions 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.

The company's fiscal year ends on the Saturday nearest December 31. Fiscal years 2016, 2015, and 2014 ended on December 31, 2016, January 2, 2016 and January 3, 2015, respectively, and included 52, 52 and 53 weeks, respectively.

Certain prior year amounts have been reclassified to be consistent with current year presentation, including restructuring expenses previously classified in general and administrative expenses.

(b) Cash and Cash Equivalents

The company considers all short-term investments with original maturities of three months or less when acquired to be cash equivalents. The company’s policy is to invest its excess cash in interest-bearing deposits with major banks that are subject to minimal credit and market risk.

(c) Accounts Receivable

Accounts receivable, as shown in the consolidated balance sheets, are net of allowances for doubtful accounts of $12.6 million and $8.8 million at December 31, 2016 and January 2, 2016, respectively. At December 31, 2016, all accounts receivable are expected to be collected within one year.

(d) 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 December 31, 2016 and January 2, 2016 are as follows:

	2016	2015
	(dollars in thousands)	
Raw materials and parts	$ 154,647	$ 139,117
Work in process	35,975	34,771
Finished goods	177,621	180,262
	$ 368,243	$ 354,150

(e) *Property, Plant and Equipment*

Property, plant and equipment are carried at cost as follows:

	2016	2015
	(dollars in thousands)	
Land	$ 21,309	$ 18,401
Building and improvements	134,158	108,210
Furniture and fixtures	56,851	52,738
Machinery and equipment	128,688	120,746
	341,006	300,095
Less accumulated depreciation	(119,435)	(100,345)
	$ 221,571	$ 199,750

Property, plant and equipment are depreciated or amortized on a straight-line basis over their useful lives based on management's estimates of the period over which the assets will be utilized to benefit the operations of the company. The useful lives are estimated based on historical experience with similar assets, taking into account anticipated technological or other changes. The company periodically reviews these lives relative to physical factors, economic factors and industry trends. If there are changes in the planned use of property and equipment or if technological changes were to occur more rapidly than anticipated, the useful lives assigned to these assets may need to be shortened, resulting in the recognition of increased depreciation and amortization expense in future periods.

Following is a summary of the estimated useful lives:

Description	Life
Building and improvements	20 to 40 years
Furniture and fixtures	3 to 7 years
Machinery and equipment	3 to 10 years

Depreciation expense amounted to $26.2 million, $25.5 million and $15.5 million in fiscal 2016, 2015 and 2014, respectively.

Expenditures which significantly extend useful lives are capitalized. Maintenance and repairs are charged to expense as incurred. Asset impairments are recorded whenever events or changes in circumstances indicate that the recorded value of an asset is greater than the sum of its expected future undiscounted cash flows.

(f) *Goodwill and Other Intangibles*

In accordance with ASC 350 “Goodwill-Intangibles and Other”, the company’s goodwill and other indefinite lived intangibles are reviewed for impairment annually on the first day of the fourth quarter and whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. In assessing the recoverability of goodwill and other indefinite lived intangibles, the company considers changes in economic conditions and makes assumptions regarding estimated future cash flows and other factors. Estimates of future cash flows are judgments based on the company’s experience and knowledge of operations. These estimates can be significantly impacted by many factors including changes in global and local business and economic conditions, operating costs, inflation, competition, and consumer and demographic trends. If the company’s estimates or the underlying assumptions change in the future, the company may be required to record impairment charges. Any such charge could have a material adverse effect on the company’s reported net earnings.

Goodwill is allocated to the business segments as follows (in thousands):

	Commercial Foodservice	Food Processing	Residential Kitchen	Total
Balance as of January 3, 2015	$ 450,890	$ 134,512	$ 223,089	$ 808,491
Goodwill acquired during the year	29,032	2,987	166,774	198,793
Measurement period adjustments to goodwill acquired in prior year	(1,126)	63	(8,000)	(9,063)
Exchange effect	(5,669)	(3,470)	(5,743)	(14,882)
Balance as of January 2, 2016	$ 473,127	$ 134,092	$ 376,120	$ 983,339
Goodwill acquired during the year	76,972	1,958	—	78,930
Measurement period adjustments to goodwill acquired in prior year	(503)	—	86,822	86,319
Exchange effect	(7,506)	(1,370)	(46,990)	(55,866)
Balance as of December 31, 2016	$ 542,090	$ 134,680	$ 415,952	$ 1,092,722

The company has not recognized any goodwill impairments and therefore no accumulated impairment loss.

Intangible assets consist of the following (in thousands):

	December 31, 2016			January 2, 2016		
	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	5.5	$ 251,025	$ (136,895)	6.1	$ 264,373	$ (109,096)
Backlog	0.0	13,550	(13,550)	0.3	13,763	(12,963)
Developed technology	4.8	24,874	(17,924)	3.8	20,868	(17,220)
		$ 289,449	$ (168,369)		$ 299,004	$ (139,279)
Indefinite-lived assets:						
Trademarks and tradenames		$ 575,091			$ 589,705	

The aggregate intangible amortization expense was $29.9 million, $27.4 million and $24.6 million in 2016, 2015 and 2014, respectively. The estimated future amortization expense of intangible assets is as follows (in thousands):

2017	$ 27,802
2018	26,485
2019	18,537
2020	17,671
2021	18,169
Thereafter	12,416
	$ 121,080

(g) *Accrued Expenses*

Accrued expenses consist of the following at December 31, 2016 and January 2, 2016, respectively:

	2016	2015
	(dollars in thousands)	
Accrued payroll and related expenses	$ 74,505	$ 49,082
Accrued customer rebates	49,923	45,154
Advanced customer deposits	41,735	57,595
Accrued warranty	40,851	37,901
Accrued professional fees	16,605	7,019
Accrued sales and other tax	13,565	13,537
Accrued agent commission	12,834	9,948
Accrued product liability and workers compensation	11,417	11,635
Product recall	7,003	7,786
Restructuring	2,295	20,423
Other accrued expenses	64,872	60,148
	$ 335,605	$ 320,228

(h) *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 such matter will have a material adverse effect on its financial condition, results of operations or cash flows of the company.

(i) *Accumulated Other Comprehensive Income*

The following table summarizes the components of accumulated other comprehensive income (loss) as reported in the consolidated balance sheets:

	2016	2015
	(dollars in thousands)	
Unrecognized pension benefit costs, net of tax of ($38,004) and ($7,287)	$ (173,394)	$ (23,579)
Unrealized loss on interest rate swap, net of tax of $3,655 and $6	5,482	9
Currency translation adjustments	(116,411)	(52,842)
	$ (284,323)	$ (76,412)

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 January 2, 2016	$ (52,842)	$ (23,579)	$ 9	$ (76,412)
Other comprehensive income before reclassification	(63,569)	(149,907)	6,703	(206,773)
Amounts reclassified from accumulated other comprehensive income	—	92	(1,230)	(1,138)
Net current-period other comprehensive income	$ (63,569)	$ (149,815)	$ 5,473	$ (207,911)
Balance as of December 31, 2016	$ (116,411)	$ (173,394)	$ 5,482	$ (284,323)

(1) Pension and interest rate swap amounts are net of tax.

(j) *Fair Value Measures*

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

Level 1 – Quoted prices in active markets for identical assets or liabilities
Level 2 – Inputs, other than quoted prices in active markets, that are observable either directly or indirectly
Level 3 – Unobservable inputs based on our own assumptions

The company's financial assets and liabilities that are measured at fair value are categorized using the fair value hierarchy at December 31, 2016 and January 2, 2016 are as follows (in thousands):

	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Total
As of December 31, 2016				
Financial Assets:				
Interest rate swaps	$ —	$ 8,842	$ —	$ 8,842
Financial Liabilities:				
Interest rate swaps	$ —	$ 100	$ —	$ 100
Contingent consideration	$ —	$ —	$ 6,612	$ 6,612
As of January 2, 2016				
Financial Liabilities:				
Interest rate swaps	$ —	$ 412	$ —	$ 412
Contingent consideration	$ —	$ —	$ 11,065	$ 11,065

The contingent consideration as of December 31, 2016 relates to the earnout provisions recorded in conjunction with the acquisitions of PES, Desmon, Goldstein Eswood and Induc. The contingent consideration as of January 2, 2016 relates to the earnout provisions recorded in conjunction with the acquisitions of Spooner Vicars, PES, Concordia, Desmon, Goldstein Eswood and Induc.

The earnout provisions associated with these acquisitions are based upon performance measurements related to sales and earnings, as defined in the respective purchase agreements. On a quarterly basis the company assesses the projected results for each of the acquisitions in comparison to the earnout targets and adjusts the liability accordingly.

(k) Foreign Currency

Foreign currency transactions are accounted for in accordance with ASC 830 "Foreign Currency Translation". The income statements of the company's foreign operations are translated at the monthly average rates. Assets and liabilities of the company's foreign operations are translated at exchange rates at the balance sheet date. These translation adjustments are not included in determining net income for the period but are disclosed and accumulated in a separate component of stockholders' equity. Exchange gains and losses on foreign currency transactions are included in determining net income for the period in which they occur. These transactions amounted to a loss of $1.9 million, $6.8 million and $3.6 million in 2016, 2015 and 2014, respectively, and are included in other expense on the statements of earnings.

(l) Revenue Recognition

At the Commercial Foodservice Equipment Group and Residential Kitchen Equipment Group, the company recognizes revenue on the sale of its products where title transfers and when risk of loss has passed to the customer, which occurs at the time of shipment, and collectibility is reasonably assured. The sale prices of the products sold are fixed and determinable at the time of shipment. Sales are reported net of sales returns, sales incentives and cash discounts based on prior experience and other quantitative and qualitative factors.

At the Food Processing Equipment Group, the company enters into long-term sales contracts for certain products. Revenue under these long-term sales contracts is recognized using the percentage of completion method defined within ASC 605-35 "Construction-Type and Production-Type Contracts" due to the length of time to fully manufacture and assemble the equipment. The company measures revenue recognized based on the ratio of actual labor hours incurred in relation to the total estimated labor hours to be incurred related to the contract. Because estimated labor hours to complete a project are based upon forecasts using the best available information, the actual hours may differ from original estimates. Under ASC 605, the company records the asset for revenue recognized but not yet billed on contracts accounted for under the percentage of completion method in Prepaid Expenses and Other on the consolidated balance sheets. For 2016 and 2015, the amount of this asset was $12.2 million and $13.0 million, respectively. The percentage of completion method of accounting for these contracts most accurately reflects the status of these uncompleted contracts in the company's financial statements and most accurately measures the matching of revenues with expenses. At the time a loss on a contract becomes known, the amount of the estimated loss is recognized in the consolidated financial statements.

(m) Shipping and Handling Costs

Fees billed to the customer for shipping and handling are classified as a component of net revenues. Shipping and handling costs are included in cost of products sold.

(n) 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, 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 for the fiscal years 2016 and 2015 are as follows:

	2016	2015
	(dollars in thousands)	
Beginning balance	$ 37,901	$ 28,786
Warranty reserve related to acquisitions	2,446	5,815
Warranty expense	48,975	45,994
Warranty claims paid	(48,471)	(42,694)
Ending balance	$ 40,851	$ 37,901

(o) Research and Development Costs

Research and development costs, included in cost of sales in the consolidated statements of earnings, are charged to expense when incurred. These costs were $26.3 million, $22.4 million and $22.6 million in fiscal 2016, 2015 and 2014, respectively.

(p) Non-Cash Share-Based Compensation

The company estimates the fair value of restricted share grants and stock options at the time of grant and recognizes compensation costs over the vesting period of the awards and options. Non-cash share-based compensation expense of $27.9 million, $15.9 million and $16.7 million was recognized for fiscal 2016, 2015 and 2014, respectively, associated with restricted share grants. The company recorded a related tax benefit of $10.5 million, $6.0 million and $4.6 million in fiscal 2016, 2015 and 2014, respectively.

As of December 31, 2016, there was $16.7 million of total unrecognized compensation cost related to nonvested restricted share grant compensation arrangements, which will be recognized over a weighted average life of 2.1 years.

Share grant awards not subject to market conditions for vesting are valued at the closing share price of the company’s stock as of the date of the grant. The company issued 382,125 and 100,704 restricted share grant awards in 2016 and 2015, respectively with a fair value of $36.0 million and $10.9 million, respectively. Share grant awards issued in 2016 and 2015 are performance based and were not subject to market conditions. The fair value of $94.19 and $107.81 per share for the awards for 2016 and 2015, respectively, represent the closing share price of the company’s stock as of the date of grant.

(q) Earnings Per Share

“Basic earnings per share” is calculated based upon the weighted average number of common shares actually outstanding, and “diluted earnings per share” is calculated based upon the weighted average number of common shares outstanding and other dilutive securities.

The company’s potentially dilutive securities consist of shares issuable on exercise of outstanding options and vesting of restricted stock grants computed using the treasury method and amounted to 55,000, 22,000, and 20,000 for fiscal 2016, 2015 and 2014, respectively. There were no anti-dilutive equity awards excluded from common stock equivalents for 2016, 2015 or 2014.

(r) Consolidated Statements of Cash Flows

Cash paid for interest was $21.0 million, $14.8 million and $14.8 million in fiscal 2016, 2015 and 2014, respectively. Cash payments totaling $89.0 million, $94.6 million, and $43.5 million were made for income taxes during fiscal 2016, 2015 and 2014, respectively.

(s) New Accounting Pronouncements

In May 2014, the Financial Accounts Standards Board ("FASB") issued ASU No. 2014-09, “Revenue from Contracts with Customers”. This update amends the current guidance on revenue recognition related to contracts with customers. Under ASU No. 2014-09, an entity should recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. ASU No. 2014-09 also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. In 2016, the FASB issued additional updates: ASU No. 2016-10, 2016-11, 2016-12 and 2016-20. These updates provide further guidance and clarification on specific items within the previously issued update. In July 2015, the FASB decided to delay the effective date of the new revenue standard to be effective for interim and annual periods beginning on or after December 15, 2017 for public companies. Companies may elect to adopt the standard at the original effective date which, for the company is, for interim and annual periods beginning on or after December 15, 2016, but not earlier. The guidance can be applied using one of two retrospective application methods. The company will adopt this standard, as required, for fiscal year 2018 and expects to use the modified retrospective approach, with the cumulative effect, if any, recognized in the opening balance of retained earnings. The company is continuing to evaluate the impact the application of these ASU's will have, if any, on the company's financial position, results of operations or cash flows.

In June 2014, the FASB issued ASU No. 2014-12, “Compensation - Stock Compensation”. This update requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update is effective for annual and corresponding interim reporting periods beginning on or after December 15, 2015. The adoption of this guidance did not have an impact on the company's financial position, results of operations or cash flows.

In January 2015, the FASB issued ASU No. 2015-01, "Income Statement - Extraordinary and Unusual Items". This update eliminates the concept of extraordinary items from the current guidance. This update is effective for annual and corresponding interim reporting periods beginning after December 15, 2015. The adoption of this guidance did not have an impact on the company's financial position, results of operations or cash flows.

In April 2015, the FASB issued ASU 2015-03, "Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs", which requires debt issuance costs to be recorded as a direct reduction of the debt liability on the balance sheet rather than as an asset. The standard is effective for fiscal years beginning after December 15, 2015. The new guidance was applied retrospectively to each prior period presented. The adoption of this guidance did not have an impact on the company's financial position, results of operations or cash flows.

In April 2015, the FASB issued ASU 2015-04, "Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets". This ASU is intended to provide a practical expedient for the measurement date of defined benefit plan assets and obligations. The practical expedient allows employers with fiscal year-end dates that do not fall on a calendar month-end (e.g., companies with a 52/53-week fiscal year) to measure pension and post-retirement benefit plan assets and obligations as of the calendar month-end date closest to the fiscal year-end. The FASB also provided a similar practical expedient for interim remeasurements for significant events. This ASU requires perspective application and is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those fiscal years. The adoption of this guidance did not have an impact on the company's financial position, results of operations or cash flows.

In July 2015, the FASB issued ASU 2015-11, “Simplifying the Measurement of Inventory,” which is intended to simplify the subsequent measurement of inventories by replacing the current lower of cost or market test with a lower of cost and net realizable value test. The guidance applies only to inventories for which cost is determined by methods other than last-in, first-out and the retail inventory method. Application of the standard, which should be applied prospectively, is required for the annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The company is evaluating the impact the application of this ASU will have, if any, on the company's financial position, results of operations or cash flows.

In August 2015, the FASB issued ASU 2015-15, “Interest - Imputation of Interest” which relates to the presentation of debt issuance costs. This standard clarifies the guidance set forth in FASB ASU 2015-03, which required that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the debt liability rather than as an asset. The new pronouncement clarifies that debt issuance costs related to line-of-credit arrangements could continue to be presented as an asset and be subsequently amortized over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the arrangement. The adoption of this guidance by the company did not result in a material reclassification of debt issuance costs.

In September 2015, the FASB issued ASU 2015-16, “Business Combinations (Topic 805): Simplifying the Accounting for Measurement-Period Adjustments”, which eliminates the requirement for an acquirer in a business combination to account for measurement-period adjustments retrospectively. Instead, acquirers must recognize measurement-period adjustments during the period in which they determine the amounts, including the effect on earnings of any amounts they would have recorded in previous periods if the accounting had been completed at the acquisition date. The ASU is effective for public business entities for fiscal years beginning after December 15, 2015, and interim periods within those fiscal years. The adoption of this guidance did not have an impact on the company's financial position, results of operations or cash flows.

In November 2015, the FASB issued ASU 2015-17 "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes". The amendments in ASU 2015-17 simplify the accounting for, and presentation of, deferred taxes by eliminating the need to separately classify the current amount of deferred tax assets or liabilities. Instead, aggregated deferred tax assets and liabilities are classified and reported as non-current assets or liabilities. The update is effective for annual reporting periods, and interim periods within those reporting periods, beginning after December 15, 2016. The company early adopted ASU 2015-17 effective April 3, 2016 on a prospective basis. Adoption of this ASU resulted in a reclassification of the company's net current deferred tax asset to the net non-current deferred tax liability in the company's Consolidated Balance Sheet as of July 2, 2016. No prior periods were retrospectively adjusted.

In February 2016, the FASB issued ASU No. 2016-02, "Leases (Topic 842)". The amendments under this pronouncement will change the way all leases with a duration of one year of 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 capital lease liability. The right-of-use asset represents the lessee’s right to use, or control the use of, a specified asset for the specified lease term. The lease liability represents the lessee’s obligation to make lease payments arising from the lease, measured on a discounted basis. Based on certain characteristics, leases are classified as financing leases or operating leases. Financing lease liabilities, those that contain provisions similar to capitalized leases, are amortized like capital leases are under current accounting, as amortization expense and interest expense in the statement of operations. Operating lease liabilities are amortized on a straight-line basis over the life of the lease as lease expense in the statement of operations. This update is effective for annual reporting periods, and interim periods within those reporting periods, beginning after December 15, 2018. The company is currently evaluating the impact this standard will have on its policies and procedures pertaining to its existing and future lease arrangements, disclosure requirements and on the company's financial position, results of operations or cash flows.

In March 2016, the FASB issued ASU No. 2016-05, "Derivatives and Hedging (Topic 815): Effect of Derivative Contract Novations on Existing Hedge Accounting Relationships". The amendments in ASU 2016-05 clarify that a change in the counterparty to a derivative instrument that has been designated as the hedging instrument under Topic 815 does not, in and of itself, require dedesignation of the hedging relationship provided that all other hedge accounting criteria continue to be met. The amendments in this update may be applied on either a prospective basis or a modified retrospective basis. This ASU is effective for annual reporting periods, and interim periods with those reporting periods, beginning after December 15, 2016. The company is evaluating the impact the application of this ASU will have, if any, on the company's financial position, results of operations or cash flows.

In March 2016, the FASB issued ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718)". The amendments in ASU-09 simplify the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for annual reporting periods, and interim periods with those reporting periods, beginning after December 15, 2016. The company is evaluating the impact the application of this ASU will have, if any, on the company's financial position, results of operations or cash flows; however the company does not expect the adoption of this ASU to be material.

In August 2016, the FASB issued ASU No. 2016-15, "Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments". The amendments in ASU-15 address eight specific cash flow classification issues to reduce current and potential future diversity in practice. This ASU is effective for annual reporting periods, and interim periods with those reporting periods, beginning after December 15, 2017. The company is evaluating the impact the application of this ASU will have, if any, on the company's cash flows.

In October 2016, the FASB issued ASU No. 2016-16, "Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory". The amendments in ASU-16 prohibit the recognition of current and deferred income taxes for an intra-entity asset transfer other than inventory until the asset has been sold to an outside party. This ASU is effective for annual reporting periods, and interim periods with those reporting periods, beginning after December 15, 2017. The company is evaluating the impact the application of this ASU will have, if any, on the company's financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU No. 2017-01, "Business Combinations (Topic 805): Clarifying the Definition of a Business". The amendments in ASU-01 clarify the definition of a business with the objective of adding guidance to assist entities with evaluating whether transactions should be accounted for as acquisitions (or disposals) of businesses. This ASU is effective for annual reporting periods, and interim periods with those reporting periods, beginning after December15, 2017. The company is evaluating the impact the application of this ASU. The company does not expect the adoption of this ASU to have a material impact on its financial position, results of operations or cash flows.

In January 2017, the FASB issued ASU No. 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 financial position, results of operations or cash flows.

(4) FINANCING ARRANGEMENTS

The following is a summary of long-term debt at December 31, 2016 and January 2, 2016:

	2016	2015
	(dollars in thousands)	
Senior secured revolving credit line	$ 725,500	$ 733,000
Foreign loans	6,413	32,813
Other debt arrangement	213	248
Total debt	$ 732,126	$ 766,061
Less current maturities of long-term debt	5,883	32,059
Long-term debt	$ 726,243	$ 734,002

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"), with the potential under certain circumstances to increase the amount of the Credit Facility to $3.0 billion. As of December 31, 2016, the company had $725.5 million of borrowings outstanding under the Credit Facility, including $701.0 million of borrowings in U.S. Dollars and $24.5 million of borrowings denominated in British Pounds. The company also has $10.2 million in outstanding letters of credit as of December 31, 2016, which reduces the borrowing availability under the Credit Facility. Remaining borrowing availability under this facility was $1.8 billion at December 31, 2016.

At December 31, 2016, borrowings under the Credit Facility accrued interest at a rate of 1.25% above LIBOR per annum or 0.25% 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 2.00% for the period. The interest rates on borrowings under the Credit Facility may be adjusted quarterly based on the company’s funded debtless 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 0.20% per annum as of December 31, 2016.

In addition, the company has other international credit facilities to fund working capital needs outside the United States and the United Kingdom. At December 31, 2016, these foreign credit facilities amounted to $6.4 million in U.S. Dollars with a weighted average per annum interest rate of approximately 10.21%.

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):

	December 31, 2016		January 2, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Total debt	$ 732,126	$ 732,126	$ 766,061	$ 766,061

The company uses floating-to-fixed interest rate swap agreements to hedge variable interest rate risk associated with the Credit Facility. At December 31, 2016, the company had outstanding floating-to-fixed interest rate swaps totaling $135.0 million notional amount carrying an average interest rate of 0.91% maturing in less than 12 months and $324.0 million notional amount carrying an average interest rate of 1.30% that mature in more than 12 months but less than 84 months.

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 Debtless 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 December 31, 2016, the company was in compliance with all covenants pursuant to its borrowing agreements.

The aggregate amount of debt payable during each of the next five years is as follows:

	(dollars in thousands)
2017	$ 5,883
2018	292
2019	113
2020	113
2021 and thereafter	725,725
	$ 732,126

(5) COMMON AND PREFERRED STOCK

(a) Shares Authorized and Issued

At December 31, 2016 and January 2, 2016, the company had 95,000,000 shares of common stock and 2,000,000 shares of non-voting preferred stock authorized. At December 31, 2016 and January 2, 2016, there were 57,539,766 and 57,306,082, respectively, shares of common stock outstanding.

(b) Treasury Stock

In July 1998, the company's Board of Directors adopted a stock repurchase program and during 1998 authorized the purchase of common shares in open market purchases. During 2013, the company's Board of Directors authorized the purchase of additional common shares in open market purchases. As of December 28, 2013, the total number of shares authorized for repurchase under the program is 4,570,266. As of December 31, 2016, 2,003,504 shares had been purchased under the 1998 stock repurchase program and 2,566,762 remain authorized for repurchase.

At December 31, 2016, the company had a total of 4,905,549 shares in treasury amounting to $205.3 million.

(c) Share-Based Awards

The company maintains several stock incentive plans under which the company's Board of Directors issues stock options and makes restricted share grants to key employees. Stock options issued under the plans provided key employees with rights to purchase shares of common stock at specified exercise prices. Options were exercised upon certain vesting requirements being met, but expired to the extent unexercised within a maximum of ten years from the date of grant. Restricted share grants issued to employees are transferable upon certain vesting requirements being met.

- 2007 Stock Incentive Plan (the "2007 Plan"), as amended on May 7, 2009. Effective August 11, 2011 and in accordance with plan parameters, the company is no longer permitted to make grants under the 2007 Plan. Accordingly, zero additional shares are available for issuance under the 2007 Plan.

  As of December 31, 2016, a total of 2,683,554 share-based awards have been issued under the 2007 Plan. This includes 2,672,667 restricted share grants, all of which have vested. This also includes 10,887 stock options, of which 2,124 have been exercised, 7,791 have been forfeited and zero remain outstanding.

- 2011 Stock Incentive Plan (the "2011 Plan"), was adopted on April 1, 2011, under which the company's Board of Directors issues stock grants to key employees. A maximum amount of 1,650,000 shares can be issued under the 2011 Plan. Stock grants issued to employees are transferable upon certain vesting requirements.

  As of December 31, 2016, a total of 852,636 share-based awards have been issued under the 2011 Plan. This includes 852,636 restricted share grants, of which 616,125 remain outstanding and unvested.

  A summary of the company’s nonvested restricted share grant activity for fiscal years ended December 31, 2016 and January 2, 2016 is as follows:

	Shares	Weighted Average Grant-Date Fair Value
Nonvested shares at January 3, 2015	386,607	$ 85.25
Granted	100,704	107.81
Vested	(125,457)	83.93
Forfeited	(20,950)	80.29
Nonvested shares at January 2, 2016	340,904	$ 94.86
Granted	382,125	94.19
Vested	(100,511)	102.57
Forfeited	(6,393)	107.81
Nonvested shares at December 31, 2016	616,125	$ 91.76

(6) INCOME TAXES

Earnings before taxes is summarized as follows:

	2016	2015	2014
	(dollars in thousands)		
Domestic	$ 336,625	$ 266,831	$ 240,936
Foreign	84,680	14,336	39,854
Total	$ 421,305	$ 281,167	$ 280,790

The provision for income taxes is summarized as follows:

	2016	2015	2014
	(dollars in thousands)		
Federal	$ 94,621	$ 78,617	$ 69,536
State and local	13,107	9,515	9,316
Foreign	29,361	1,425	8,626
Total	$ 137,089	$ 89,557	$ 87,478
Current	$ 115,726	$ 87,638	$ 72,137
Deferred	21,363	1,919	15,341
Total	$ 137,089	$ 89,557	$ 87,478

Reconciliation of the differences between income taxes computed at the federal statutory rate to the effective rate are as follows:

	2016	2015	2014
U.S. federal statutory tax rate	35.0 %	35.0 %	35.0 %
State taxes, net of federal benefit	2.3	2.1	2.2
U.S. domestic manufacturers deduction	(2.4)	(2.6)	(2.3)
Permanent book vs. tax differences	(1.6)	(1.1)	(2.0)
Foreign tax rate differentials	(1.1)	(2.1)	(1.9)
Reserve adjustments and other	0.3	0.6	0.2
Consolidated effective tax	32.5 %	31.9 %	31.2 %

At December 31, 2016 and January 2, 2016, the company had recorded the following deferred tax assets and liabilities:

	2016	2015
	(dollars in thousands)	
Deferred tax assets:		
Federal net operating loss carryforwards	$ 16,951	$ 13,416
Compensation related	25,650	19,160
Accrued retirement benefits	60,986	43,930
Inventory reserves	9,275	8,183
Product liability and workers compensation reserves	4,550	5,811
Warranty reserves	10,141	9,252
Receivable related reserves	3,376	3,069
UNICAP	5,104	3,520
State net operating loss carryforwards	1,923	1,483
Foreign net operating loss carryforwards	16,717	17,549
Other	37,822	32,347
Gross deferred tax assets	192,495	157,720
Valuation allowance	(29,893)	(20,395)
Deferred tax assets	$ 162,602	$ 137,325
Deferred tax liabilities:		
Intangible assets	$ (173,673)	$ (182,471)
Foreign tax earnings repatriation	(1,178)	(1,363)
Depreciation	(2,957)	(551)
Interest rate swap	(3,655)	(6)
Other	(7,200)	(2,783)
Deferred tax liabilities	$ (188,663)	$ (187,174)
Net deferred tax assets (liabilities)	$ (26,061)	$ (49,849)
Current deferred asset	$ —	$ 51,723
Long-term deferred asset	51,699	11,438
Long-term deferred liability	(77,760)	(113,010)
Net deferred tax assets (liabilities)	$ (26,061)	$ (49,849)

The company does not provide for deferred taxes and foreign withholding taxes on the remaining undistributed earnings of certain international subsidiaries of approximately $157.4 million and $104.5 million as of December 31, 2016 and January 2, 2016, respectively, as these earnings are considered permanently invested. Upon repatriation of these earnings to the U.S. in the form of dividends or otherwise, the company may be subject to U.S. income taxes and foreign withholding taxes. The actual U.S. tax cost would depend on income tax laws and circumstances at the time of distribution. Determination of the related tax liability is not practicable because of the complexities associated with the hypothetical calculation.

As of December 31, 2016, the company has U.S. federal and foreign income tax net operating loss carryforwards of approximately $48.4 million and $63.3 million, respectively. If not utilized, the federal net operating loss carryforwards will expire at various dates beginning 2024 through 2036. The foreign net operating losses have no expiration period. Certain of these carryforwards are subject to limitations on use due to tax rules affecting acquired tax attributes, loss sharing between group members, and business profitability, and therefore the company has established tax-effected valuation allowances against these tax benefits.

The valuation allowances that the company has provided against the deferred tax assets amount to $29.9 million and primarily relate to the acquisition of AGA in 2015. The company will continue to maintain a valuation allowance on certain deferred tax assets until such time as in management's judgment, considering all available positive and negative evidence, the company determines that these deferred tax assets are more likely than not realizable.

As of December 31, 2016, the total amount of liability for unrecognized tax benefits related to federal, state and foreign taxes was approximately 20.3 million (of which $20.0 million would impact the effective tax rate if recognized) plus approximately $2.7 million of accrued interest and $4.9 million of penalties. The company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. Interest recognized in fiscal years 2016, 2015 and 2014 was $0.3 million, $0.3 million and $(0.3) million, respectively. Penalties recognized in fiscal years 2016, 2015 and 2014 was $1.0 million, $0.8 million and $1.1 million, respectively.

Although the company believes its tax returns are correct, the final determination of tax examinations may be different than what was reported on the tax returns. In the opinion of management, adequate tax provisions have been made for the years subject to examination.

The following table summarizes the activity related to the unrecognized tax benefits for the fiscal years ended January 3, 2015, January 2, 2016 and December 31, 2016 (dollars in thousands):

Balance at January 3, 2015	$	12,474
Increases to current year tax positions		3,089
Increase to prior year tax positions		116
Decrease to prior year tax positions		(755)
Settlements		—
Lapse of statute of limitations		(505)
Balance at January 2, 2016	$	14,419
Increases to current year tax positions		6,367
Increase to prior year tax positions		601
Decrease to prior year tax positions		(233)
Settlements		—
Lapse of statute of limitations		(865)
Balance at December 31, 2016	$	20,289

The company operates in multiple taxing jurisdictions; both within the United States and outside of the United States, and faces audits from various tax authorities. The company remains subject to examination until the statute of limitations expires for the respective tax jurisdiction. Within specific countries, the company and its operating subsidiaries may be subject to audit by various tax authorities and may be subject to different statute of limitations expiration dates.

It is reasonably possible that the amounts of unrecognized tax benefits associated with state, federal and foreign tax positions may decrease over the next twelve months due to expiration of a statute or completion of an audit. The company believes that it is reasonably possible that $2.0 million of its remaining unrecognized tax benefits may be recognized by the end of 2017 as a result of settlements with taxing authorities or lapses of statutes of limitations.

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

United States – federal	2012 – 2016
United States – states	2007 – 2016
Australia	2012 – 2016
Brazil	2012 – 2016
Canada	2007 – 2016
China	2007 – 2016
Czech Republic	2014 – 2016
Denmark	2013 – 2016
France	2014 – 2016
Germany	2014 – 2016
India	2013 – 2016
Ireland	2010 – 2016
Italy	2012 – 2016
Luxembourg	2012 – 2016
Mexico	2011 – 2016
Netherlands	2005 – 2016
Philippines	2013 – 2016
Poland	2011 – 2016
Romania	2007 – 2016
South Korea	2011
Spain	2012 – 2016
Sweden	2010 – 2016
Switzerland	2008 – 2016
Taiwan	2011 – 2012
United Kingdom	2015 – 2016

(7) 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 the derivative does qualify as a hedge under ASC 815, changes in the fair value will either be offset against the change in fair value of the hedged assets, liabilities or firm commitments or recognized in other accumulated other comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a hedge's change in fair value will be immediately recognized in earnings.

(a) Foreign Exchange

The company periodically enters into derivative instruments, principally forward contracts to reduce exposures pertaining to fluctuations in foreign exchange rates. The fair value of these forward contracts was a unrealized gain of $0.3 million at the end of the year.

(b) 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 December 31, 2016, the fair value of these instruments was an asset of $8.7 million. The change in fair value of these swap agreements in 2016 was a gain of $5.4 million, net of taxes.

A summary of the company's interest rate swaps is as follows:

		Twelve Months Ended	
	Location	Dec 31, 2016	Jan 2, 2016
		(dollars in thousands)	
Fair value	Other assets	$ 8,842	$ —
Fair value	Other liabilities	$ (100)	$ (412)
Amount of gain/(loss) recognized in other comprehensive income	Other comprehensive income	$ 7,892	$ (1,502)
Gain/(loss) reclassified from accumulated other comprehensive income (effective portion)	Interest expense	$ (1,230)	$ (1,909)
Gain/(loss) recognized in income (ineffective portion)	Other expense	$ (32)	$ 9

Interest rate swaps are subject to default risk to the extent the counterparty is unable to satisfy its 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 agreement.

(8) LEASE COMMITMENTS

The company leases warehouse space, office facilities and equipment under operating leases, which expire in fiscal 2017 and thereafter. Future minimum payment obligations under these leases are as follows:

	Total Operating Lease Commitments
2017	$ 24,669
2018	20,499
2019	17,245
2020	13,953
2021	12,008
2022 and thereafter	26,342
	$ 114,716

Rental expense pertaining to the operating leases was $23.5 million, $17.6 million and $14.9 million in fiscal 2016, 2015 and 2014 respectively.

(9) 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 California, Illinois, Michigan, New Hampshire, North Carolina, Pennsylvania, Tennessee, Texas, Vermont, Washington, Australia, China, Denmark, Italy, the Philippines, Poland and the United Kingdom. Principal product lines of this group include conveyor ovens, ranges, steamers, convection ovens, combi-ovens, broilers and steam cooking equipment, induction cooking systems, baking and proofing ovens, charbroilers, catering equipment, fryers, toasters, hot food servers, food warming equipment, griddles, coffee and beverage dispensing equipment, professional refrigerators, coldrooms, ice machines, freezers and kitchen processing and ventilation equipment. These products are sold and marketed under the brand names: Anets, Beech, Blodgett, Blodgett Combi, Blodgett Range, Bloomfield, Britannia, CTX, Carter-Hoffmann, Celfrost, Concordia, CookTek, Desmon, Doyon, Eswood, Follett, Frifri, Giga, Goldstein, Holman, Houno, IMC, Induc, Jade, Lang, Lincat, MagiKitch'n, Market Forge, Marsal, Middleby Marshall, MPC, Nieco, Nu-Vu, PerfectFry, Pitco, Southbend, Star, Toastmaster, TurboChef, 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, Texas, Virginia, Wisconsin, France, Germany, India and the United Kingdom. Principal product lines of this group include batch ovens, belt ovens, continuous processing ovens, frying systems, automated thermal processing systems, automated loading and unloading systems, meat presses, breading, battering, mixing, water cutting systems, forming, grinding and slicing equipment, food suspension, reduction and emulsion systems, defrosting equipment, packaging and food safety equipment. These products are sold and marketed under the brand names: Alkar, Armor Inox, Auto-Bake, Baker Thermal Solutions, Cozzini, Danfotech, Drake, Maurer-Atmos, MP Equipment, RapidPak, Spooner Vicars, Stewart Systems and Thurne.

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, Wisconsin, France, Ireland, Romania and the United Kingdom. Principal product lines of this group are ranges, cookers, ovens, refrigerators, dishwashers, microwaves, cooktops and outdoor equipment. These products are sold and marketed under the brand names: Brigade, Falcon, Fired Earth, Grange, 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. Management believes that intersegment sales are made at established arm's length transfer prices.

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

	Commercial Foodservice	Food Processing	Residential Kitchen	Corporate and Other(3)	Total
2016					
Net sales	$ 1,266,955	$ 342,235	$ 658,662	$ —	$ 2,267,852
Operating income	350,315	87,039	89,435	(80,564)	446,225
Depreciation and amortization expense	19,548	5,696	29,897	3,093	58,234
Net capital expenditures	11,958	5,667	6,961	231	24,817
Total assets	1,347,441	340,088	1,179,640	49,967	2,917,136
Long-lived assets(2)	84,475	21,763	175,206	35,100	316,544
2015					
Net sales	$ 1,121,046	$ 297,712	$ 407,840	$ —	$ 1,826,598
Operating income	296,061	64,650	4,653	(62,761)	302,603
Depreciation and amortization expense	17,117	5,839	29,515	1,603	54,074
Net capital expenditures	12,123	2,164	7,935	140	22,362
Total assets	1,115,840	308,677	1,250,503	86,131	2,761,151
Long-lived assets(2)	61,835	20,307	129,751	21,327	233,220
2014					
Net sales	$ 1,041,228	$ 322,783	$ 272,527	$ —	$ 1,636,538
Operating income	269,559	67,395	14,585	(51,107)	300,432
Depreciation and amortization expense	19,661	6,601	13,356	1,634	41,252
Net capital expenditures	6,752	4,487	1,811	93	13,143
Total assets	1,053,921	304,241	636,680	71,289	2,066,131
Long-lived assets(2)	50,211	19,627	71,500	10,140	151,478

(1)Non-operating expenses are not allocated to the reportable segments. Non-operating expenses consist of interest expense and deferred financing amortization, foreign exchange gains and losses and other income and expense items outside of income from operations.

(2)Long-lived assets consist of property, plant and equipment, long-term deferred tax assets and other assets.

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

Geographic Information

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

	2016	2015	2014
	(dollars in thousands)		
United States and Canada	$ 181,317	$ 149,299	$ 127,308
Asia	14,729	17,336	5,714
Europe and Middle East	119,511	65,581	16,739
Latin America	987	1,004	1,717
Total international	135,227	83,921	24,170
	$ 316,544	$ 233,220	$ 151,478

Net sales (in thousands):

	2016	2015	2014
	(dollars in thousands)		
United States and Canada	$ 1,470,566	$ 1,274,907	$ 1,139,034
Asia	190,548	165,541	171,995
Europe and Middle East	522,819	319,387	222,974
Latin America	83,919	66,763	102,535
Total international	797,286	551,691	497,504
	$ 2,267,852	$ 1,826,598	$ 1,636,538

(10) 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 Chairman ("Chairman Plan"). The retirement benefits are based upon a percentage of the Chairman’s final base salary using a weighted average rate of increase in future compensation levels of 10.0%.

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, which covers the majority of employees 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.

A summary of the plans' net periodic pension cost, benefit obligations, funded status, and net balance sheet position is as follows (dollars in thousands):

	Fiscal 2016		Fiscal 2015	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Net Periodic Pension Cost (Benefit):				
Service cost	$ 456	$ 3,364	$ 505	$ 1,216
Interest cost	1,280	41,606	1,254	12,992
Expected return on assets	(777)	(68,845)	(813)	(20,547)
Amortization of net loss (gain)	126	35	694	—
Curtailment (gain) loss	—	(632)	—	3,202
Pension settlement	—	—	—	—
	$ 1,085	$ (24,472)	$ 1,640	$ (3,137)
Change in Benefit Obligation:				
Benefit obligation – beginning of year	$ 31,830	$ 1,476,370	$ 33,907	$ 16,114
Benefit obligation – acquisition	—	—	—	1,495,089
Service cost	456	3,364	505	1,216
Interest on benefit obligations	1,280	41,606	1,254	12,992
Employee contributions	—	404	—	182
Actuarial (gain) loss	(722)	297,754	(2,969)	8,668
Pension settlement	—	—	—	—
Net benefit payments	(895)	(64,466)	(867)	(24,179)
Curtailment (gain) loss	—	(706)	—	3,202
Exchange effect	—	(275,833)	—	(36,914)
Benefit obligation – end of year	$ 31,949	$ 1,478,493	$ 31,830	$ 1,476,370
Change in Plan Assets:				
Plan assets at fair value – beginning of year	$ 12,987	$ 1,287,723	$ 13,575	$ 15,306
Plan assets at fair value – acquisition	—	—	—	1,305,506
Company contributions	754	17,758	823	16,950
Investment gain (loss)	743	161,405	(544)	6,173
Employee contributions	—	404	—	182
Benefit payments and plan expenses	(895)	(64,466)	(867)	(24,179)
Exchange effect	—	(228,959)	—	(32,215)
Plan assets at fair value – end of year	$ 13,589	$ 1,173,865	$ 12,987	$ 1,287,723
Funded Status:				
Unfunded benefit obligation	$ (18,360)	$ (304,628)	$ (18,843)	$ (188,647)
Amounts recognized in balance sheet at year end:				
Accrued pension benefits	$ (18,360)	$ (304,628)	$ (18,843)	$ (188,647)
Pre-tax components in accumulated other comprehensive income at period end:				
Net actuarial loss	$ 4,908	$ 206,490	$ 5,725	$ 25,141
Pre-tax components in recognized in other comprehensive income for the period:				
Current year actuarial (gain) loss	$ (691)	$ 181,384	$ (1,612)	$ 25,141
Actuarial loss recognized	(126)	(35)	(694)	—
Total amount recognized	$ (817)	$ 181,349	$ (2,306)	$ 25,141
Accumulated Benefit Obligation	$ 31,041	$ 1,478,435	$ 30,106	$ 1,475,631
Salary growth rate	n/a	1.6%	n/a	1.5%
Assumed discount rate	3.9%	2.5%	4.1%	3.7%
Expected return on assets	6.0%	6.2%	6.0%	6.2%

The company has engaged non-affiliated third party professional investment advisors to assist the company to develop its investment policy and establish asset allocations. The company's overall investment objective is to provide a return, that along with company contributions, is expected to meet future benefit payments. Investment policy is established in consideration of anticipated future timing of benefit payments under the plans. The anticipated duration of the investment and the potential for investment losses during that period are carefully weighed against the potential for appreciation when making investment decisions. The company routinely monitors the performance of investments made under the plans and reviews investment policy in consideration of changes made to the plans or expected changes in the timing of future benefit payments.

The assets of the plans were invested in the following classes of securities (none of which were securities of the company):

U.S. Plans:

	Target Allocation	Percentage of Plan Assets	
		2016	2015
Equity	48%	51%	47%
Fixed income	40	39	39
Money market	4	3	5
Other (real estate investment trusts & commodities contracts)	8	7	9
	100%	100%	100%

Non-U.S. Plans:

	Target Allocation	Percentage of Plan Assets	
		2016	2015
Equity	16%	20%	19%
Fixed income	45	55	44
Alternatives/Other	28	8	20
Real Estate	11	12	12
Cash and cash equivalents	—	5	5
	100%	100%	100%

In accordance with ASC 820 “Fair Value Measurements and Disclosures”, the company has measured its defined benefit pension plans at fair value. The following tables summarize the basis used to measure the pension plans’ assets at fair value as of December 31, 2016 and January 2, 2016 (in thousands):

U.S. Plans:

	Fiscal 2016			Fiscal 2015		
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Net Asset Value	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Net Asset Value
Short Term Investment Fund (a)	$ 368	$ —	$ 368	$ 540	$ —	$ 540
Equity Securities:						
Large Cap	3,055	3,055	—	3,149	3,149	—
Mid Cap	512	512	—	383	383	—
Small Cap	455	455	—	383	383	—
International	2,917	2,917	—	2,291	2,291	—
Fixed Income:						
Government/Corporate	4,367	4,367	—	4,311	4,311	—
High Yield	971	971	—	778	778	—
Alternative:						
Global Real Estate Investment Trust	539	539	—	771	771	—
Commodities Contracts	405	405	—	381	381	—
Total	$ 13,589	$ 13,221	$ 368	$ 12,987	$ 12,447	$ 540

(a) Represents collective short term investment fund, composed of high-grade money market instruments with short maturities.

Non-U.S. Plans:

	Fiscal 2016				
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value
Cash and cash equivalents	$ 58,131	$ 4,730	$ 2,886	$ —	$ 50,515
Equity Securities:					
UK	87,828	2,098	—	—	85,730
International:					
Developed	135,186	3,547	—	—	131,639
Emerging	6,803	79	—	—	6,724
Unquoted/Private Equity	3189	0	—	—	3,189
Fixed Income:					
Government/Corporate:					
UK	317,621	11,203	14,009	—	292,409
International	107,882	—	103	—	107,779
Index Linked	212,327	4,205	—	—	208,122
Other	3,812	—	—	—	3,812
Convertible Bonds	160	—	—	—	160
Real Estate:					
Direct	121,612	—	121,612	—	—
Indirect	10,693	138	—	—	10,555
Hedge Fund Strategy:					
Equity Long/Short	61,612	—	—	—	61,612
Arbitrage & Event	64,961	—	—	—	64,961
Directional Trading & Fixed Income	30,430	—	—	—	30,430
Cash & Other	38,099	—	—	—	38,099
Direct Sourcing	1,379	—	—	—	1,379
Leveraged Loans	11,025	—	—	—	11,025
Alternative/Other	(98,885)	—	—	95	(98,980)
Total	$ 1,173,865	$ 26,000	$ 138,610	$ 95	$ 1,009,160

	Fiscal 2015				
Asset Category	Total	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)	Net Asset Value
Cash and cash equivalents	$ 73,006	$ 3,937	$ 3,288	$ —	$ 65,781
Equity Securities:					
UK	91,269	2,565	194	—	88,510
International:					
Developed	147,277	3,294	2,414	—	141,569
Emerging	6,375	77	—	—	6,298
Unquoted/Private Equity	759	—	—	—	759
Fixed Income:					
Government/Corporate:					
UK	168,706	10,816	19,952	—	137,938
International	126,735	—	1,046	—	125,689
Index Linked	258,502	—	—	—	258,502
Other	3,518	—	—	—	3,518
Convertible Bonds	1,471	—	—	—	1,471
Real Estate:					
Direct	140,765	—	140,765	—	—
Indirect	13,617	177	—	—	13,440
Hedge Fund Strategy:					
Equity Long/Short	80,230	—	—	—	80,230
Arbitrage & Event	92,635	—	—	—	92,635
Directional Trading & Fixed Income	55,424	—	—	—	55,424
Cash & Other	2,557	—	—	—	2,557
Direct Sourcing	1,655	—	—	—	1,655
Leveraged Loans	10,824	—	—	—	10,824
Alternative/Other	12,398	288	—	—	12,110
Total	$ 1,287,723	$ 21,154	$ 167,659	$ —	$ 1,098,910

The fair value of the Level 1 assets is based on observable, quoted market prices of the identical underlying security in an active market. The fair value of the Level 2 assets is primarily based on market observable inputs to quoted market prices, benchmark yields and broker/dealer quotes. Level 3 inputs, as applicable, represent unobservable inputs that reflect assumptions developed by management to measure assets at fair value.

The expected return on assets is developed in consideration of the anticipated duration of investment period for assets held by the plan, the allocation of assets in the plan, and the historical returns for plan assets.

Estimated future benefit payments under the plans are as follows (dollars in thousands):

	U.S. Plans	Non-U.S. Plans
2017	$ 977	$ 54,702
2018	1,648	56,430
2019	1,653	57,493
2020	1,674	59,525
2021 through 2026	10,634	368,206

Expected contributions to the U.S. Plans and Non-U.S. Plans to be made in 2017 are $1.2 million and $3.5 million, respectively.

(b) *Defined Contribution Plans*

As of December 31, 2016, the company maintained two separate defined contribution 401K savings plans covering all employees in the United States. These two plans separately cover the union employees at the Elgin, Illinois facility and all other remaining union and non-union employees in the United States. The company also maintained defined contribution plans for its UK based employees.

(11) QUARTERLY DATA (UNAUDITED)

	1st	2nd	3rd	4th	Total Year
	(dollars in thousands, except per share data)				
2016					
Net sales	$ 516,355	$ 580,456	$ 574,224	$ 596,817	$ 2,267,852
Gross profit	196,773	233,502	231,728	239,177	901,180
Income from operations	86,375	111,913	121,439	126,498	446,225
Net earnings	$ 54,538	$ 72,891	$ 75,851	$ 80,936	$ 284,216
Basic earnings per share (1)	$ 0.96	$ 1.28	$ 1.33	$ 1.42	$ 4.98
Diluted earnings per share (1)	$ 0.96	$ 1.28	$ 1.33	$ 1.41	$ 4.98
2015					
Net sales	$ 406,596	$ 436,291	$ 449,004	$ 534,707	$ 1,826,598
Gross profit	157,562	172,889	177,182	198,872	706,505
Income from operations	66,580	83,360	80,030	72,633	302,603
Net earnings	$ 38,231	$ 54,267	$ 48,825	$ 50,287	$ 191,610
Basic earnings per share (1)	$ 0.67	$ 0.95	$ 0.86	$ 0.88	$ 3.36
Diluted earnings per share (1)	$ 0.67	$ 0.95	$ 0.86	$ 0.88	$ 3.36

(1) *Sum of quarters may not equal the total for the year due to changes in the number of shares outstanding during the year.*

(12) RESTRUCTURING AND ACQUISITION INTEGRATION INITIATIVES

During the fiscal year 2016, the company incurred restructuring charges relative to each of its business segments. The costs and corresponding reserve balances (by segment) are summarized as follows (in thousands):

Commercial Foodservice Equipment Group:

During the third quarter of 2015, the company closed one manufacturing facility within the Commercial Foodservice Equipment Group and transferred production to another existing manufacturing facility within the company. This action, which was not material to the company's operations, resulting in a charge of $0.9 million for severance and lease costs in restructuring expenses in the consolidated statements of earnings for the year ended, January 2, 2016. The company estimated that these restructuring initiatives would result in future cost savings of approximately $1.0 million annually, beginning in fiscal year 2016 and no significant future costs related to this action are expected.

Food Processing Equipment Group:

During the third quarter of 2015, the company closed one manufacturing facility within the Food Processing Equipment Group and transferred production to another existing manufacturing facility within the company. This action, which was not material to the company's operations, resulting in a charge of $2.4 million for severance and lease costs in restructuring expenses and $0.2 million in cost of sales in the consolidated statements of earnings for the year ended, January 2, 2016. The company estimated that these restructuring initiatives would result in future cost savings of approximately $3.5 million annually, beginning in fiscal year 2017 and no significant future costs related to this action are expected.

Residential Kitchen Equipment Group:

During the fiscal years 2015 and 2014, the company took actions to improve the operations of Viking within the Residential Kitchen Equipment Group. Additionally, during the fiscal years 2016 and 2015, the company undertook acquisition integration initiatives related to AGA within the Residential Kitchen Equipment Group. These initiatives included organizational restructuring and headcount reductions, consolidation and disposition of certain facilities and business operations. The company recorded expense in the amount of $11.0 million, $25.5 million and $7.2 million, respectively in the years ended December 31, 2016, January 2, 2016 and January 3, 2015, respectively. This expense is reflected in restructuring expenses in the consolidated statements of earnings for such periods. The company estimated that these restructuring initiatives would result in future cost savings of approximately $24.1 million annually, beginning in fiscal year 2016, primarily related to compensation and facility costs. The company anticipates that all severance obligations for the Residential Kitchen Equipment Group will be satisfied by the end of fiscal of 2017. The lease obligations extend through November 2018.

	Severance/Benefits	Facilities/Operations	Other	Total
Balance as of December 28, 2013	$ 1,619	$ 77	$ 108	$ 1,804
Expenses	3,776	3,457	(4)	7,229
Payments	(5,248)	(3,534)	(67)	(8,849)
Balance as of January 3, 2015	$ 147	$ —	$ 37	$ 184
Expenses	18,142	7,248	108	25,498
Payments	(2,628)	(2,606)	(25)	(5,259)
Balance as of January 2, 2016	$ 15,661	$ 4,642	$ 120	$ 20,423
Expenses	9,816	1,160	10	10,986
Exchange Effect	(749)	(73)	(32)	(854)
Payments	(19,583)	(3,697)	(29)	(23,309)
Balance as of December 31, 2016	$ 5,145	$ 2,032	$ 69	$ 7,246

THE MIDDLEBY CORPORATION AND SUBSIDIARIES

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
FOR THE FISCAL YEARS ENDED DECEMBER 31, 2016, JANUARY 2, 2016
AND JANUARY 3, 2015

	Balance Beginning Of Period	Additions/ (Recoveries) Charged to Expense	Other Adjustments (1)	Write-Offs During the the Period	Balance At End Of Period
Allowance for doubtful accounts; deducted from accounts receivable on the balance sheets-					
2016	$ 8,838,500	$ 45,900	$ 4,886,500	$ (1,170,700)	$ 12,600,200
2015	$ 9,091,000	$ 121,800	$ 1,103,400	$ (1,477,700)	$ 8,838,500
2014	$ 6,987,000	$ 3,075,000	$ —	$ (971,000)	$ 9,091,000

(1) Amounts consist primarily of valuation allowances assumed from acquired companies.

	Balance Beginning Of Period	Additions/ (Recoveries) Charged to Expense(1)	Write-Offs During the the Period	Balance At End Of Period
Valuation allowance - Deferred tax assets				
2016	$ 20,395,200	$ 9,497,800	$ —	$ 29,893,000
2015	$ —	$ 20,395,200	$ —	$ 20,395,200

(1) Reserve related to the acquisition of AGA.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

Disclosure Controls and Procedures

The company maintains disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the Exchange Act)) as of the end of the period covered by this report 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.

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 design and operation of the company's disclosure controls and procedures as of December 31, 2016. 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.

Changes in Internal Control Over Financial Reporting

During the quarter ended December 31, 2016, there have been no changes in the company's internal controls over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that have materially affected, or are reasonably likely to materially affect, the company's internal control over financial reporting.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting. Our internal control over financial reporting is a process designed 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. Our internal control over financial reporting includes those policies and procedures that:

(i) pertain to the maintenance of records that in reasonable detail, accurately and fairly reflect the transactions and dispositions of our assets;

(ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of our management and directors; and

(iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions or that the degree of compliance with the policies or procedures may deteriorate.

Under the supervision and with the participation of our management, including our principal executive officer and principal financial officer, we conducted an evaluation of the effectiveness of our internal control over financial reporting based on the framework in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (COSO). Our assessment of the internal control structure excluded Follett (acquired May 31, 2016).

This acquisition constitutes 16.4% and 7.7% of net and total assets, respectively, 4.5% of net sales and 3.7% of net income of the consolidated financial statements of the Company as of and for the year ended December 31, 2016. This acquisition is included in the consolidated financial statements of the company as of and for the year ended December 31, 2016. Under guidelines established by the Securities Exchange Commission, companies are allowed to exclude acquisitions from their assessment of internal control over financial reporting during the first year of an acquisition while integrating the acquired company.

Based on our evaluation under the framework in Internal Control - Integrated Framework, our management concluded that our internal control over financial reporting was effective as of December 31, 2016.

Ernst & Young LLP, independent registered public accounting firm, who audited and reported on the consolidated financial statements of the company included in this report, has issued an attestation report on the effectiveness of the company's internal control over financial reporting as of December 31, 2016.

The Middleby Corporation
March 1, 2017

Item 9B. Other Information

Not applicable.

PART III

Pursuant to General Instruction G (3), of Form 10-K, the information called for by Part III (Item 10 (Directors, Executive Officers and Corporate Governance), Item 11 (Executive Compensation), Item 12 (Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters), Item 13 (Certain Relationships and Related Transactions, and Director Independence) and Item 14 (Principal Accountant Fees and Services), is incorporated herein by reference from the registrant's definitive proxy statement filed with the Commission pursuant to Regulation 14A not later than 120 days after the end of the fiscal year covered by this Form 10-K.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a) 1. Financial Statements

The financial statements listed on Page 48 are filed as part of this Form 10-K.

3. Exhibits

3.1	Restated Certificate of Incorporation of The Middleby Corporation (effective as of May 13, 2005), incorporated by reference to the company's Form 8-K, Exhibit 3.1, dated April 29, 2005, filed on May 17, 2005.
3.2	Third Amended and Restated Bylaws of The Middleby Corporation (effective as of May 14, 2013), incorporated by reference to the company's Form 8-K, Exhibit 3.1, dated May 14, 2013, filed on May 17, 2013.
3.3	Certificate of Amendment to the Restated Certificate of Incorporation of The Middleby Corporation (effective as of May 3, 2007), incorporated by reference to the company’s Form 8-K, Exhibit 3.1, dated May 3, 2007, filed on May 3, 2007.
3.4	Certificate of Amendment to the Restated Certificate of Incorporation of The Middleby Corporation (effective as of May 8, 2014), incorporated by reference to the company's Form 8-K, Exhibit 3.1, dated May 6, 2014, filed on May 8, 2014.
4.1	Certificate of Designations dated October 30, 1987, and specimen stock certificate relating to the company Preferred Stock, incorporated by reference from the company’s Form 10-K, Exhibit (4), for the fiscal year ended December 31, 1988, filed on March 15, 1989.
10.1	Sixth Amended and Restated Credit Agreement, dated as of July 28, 2016, among Middleby Marshall Inc, The Middleby Corporation, the Initial Subsidiary Borrowers named therein, the lenders named therein and Bank of America, N.A., as administrative agent for the lenders, incorporated by reference to Middleby's Form 8-K, Exhibit 10.1, filed on August 3, 2016.
10.2*	Amended 1998 Stock Incentive Plan, dated December 15, 2003, incorporated by reference to the company’s Form 10-K, Exhibit 10.21, for the fiscal year ended January 3, 2004, filed on April 2, 2004.
10.3*	Employment Agreement of Selim A. Bassoul dated December 23, 2004, incorporated by reference to the company's Form 8-K Exhibit 10.1, dated December 23, 2004, filed on December 28, 2004.
10.4*	Employment Agreement by and between The Middleby Corporation and Timothy J. FitzGerald, dated March 21, 2013, incorporated by reference to the company's Form 8-K Exhibit 10.1, dated March 21, 2013, filed on March 25, 2013.
10.5*	Form of The Middleby Corporation 1998 Stock Incentive Plan Restricted Stock Agreement, incorporated by reference to the company's Form 8-K Exhibit 10.2, dated March 7, 2005, filed on March 8, 2005.
10.6*	Amendment to The Middleby Corporation 1998 Stock Incentive Plan, effective as of January 1, 2005, incorporated by reference to the company's Form 8-K Exhibit 10.2, dated April 29, 2005, filed on May 17, 2005.
10.7*	Revised Form of Restricted Stock Agreement for The Middleby Corporation 1998 Stock Incentive Plan, , incorporated by reference to the company’s Form 8-K, Exhibit 10.1, dated March 8, 2007, filed on March 14, 2007.

10.8*	Employment Agreement by and between The Middleby Corporation and Selim A. Bassoul, dated as of January 25, 2013, incorporated by reference to the company's Form 8-K Exhibit 10.1, dated January 25, 2013, filed on January 28, 2013.
10.9*	The Middleby Corporation 2011 Long-Term Incentive Plan, incorporated by reference to Appendix A to the company’s definitive proxy statement filed with the Securities and Exchange Commission on April 1, 2011.
10.10*	The Middleby Corporation Value Creation Incentive Plan, incorporated by reference to Appendix B to the company’s definitive proxy statement filed with the Securities and Exchange Commission on April 1, 2011.
10.11*	Form of Restricted Performance Stock Agreement for The Middleby Corporation 2011 Long-Term Incentive Plan, incorporated by reference to Exhibit 10.1 to the company's Form 8-K, dated February 24, 2014, filed on March 3, 2014.
21	List of subsidiaries.
23.1	Consent of Ernst & Young LLP.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a) and Rule 15d-14(a) of the Securities Exchange Act, as amended.
32.1	Certification of Principal Executive Officer pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2	Certification of Principal Financial Officer Pursuant to 18 U.S.C. 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
101	Financial statements on Form 10-K for the year ended December 31, 2016, filed on March 1, 2017, formatted in Extensive Business Reporting Language (XBRL); (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of earnings, (iii) consolidated statements of cash flows, (iv) notes to the consolidated financial statements.

* Designates management contract or compensation plan.

(c) See the financial statement schedule included under Item 8.

Item 16. Form 10-K Summary

None

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) 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, on the 1st day of March 2017.

THE MIDDLEBY CORPORATION

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

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities indicated on March 1, 2017.

Signatures	Title
PRINCIPAL EXECUTIVE OFFICER	
/s/ Selim A. Bassoul Selim A. Bassoul	Chairman of the Board, President, Chief Executive Officer and Director
PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER	
/s/ Timothy J. FitzGerald Timothy J. FitzGerald	Vice President, Chief Financial Officer, Principal Financial Officer and Principal Accounting Officer
DIRECTORS	
/s/ Robert Lamb Robert Lamb	Director
/s/ John R. Miller, III John R. Miller, III	Director
/s/ Gordon O'Brien Gordon O'Brien	Director
/s/ Philip G. Putnam Philip G. Putnam	Director
/s/ Cathy L. McCarthy Cathy L. McCarthy	Director
/s/ Sarah Palisi Chapin Sarah Palisi Chapin	Director

EXHIBIT 21

Subsidiaries of The Middleby Corporation(1)

Name of Subsidiary	State/Country of Incorporation/Organization
AGA Rangemaster Group PLC	United Kingdom
AGA Rangemaster Ltd	United Kingdom
AGA Rangemaster Properties Ltd	United Kingdom
AGA Rayburn Ltd	United Kingdom
Alkar Holdings, Inc.	Wisconsin
Alkar-RapidPak, Inc.	Wisconsin
Anetsberger, LLC	Delaware
ARG Corporate Services Ltd	United Kingdom
Armor Inox Holding France S.A.S.	France
Armor Inox Production S.a.r.l.	France
Armor Inox S.A.	France
Armor Inox Services S.A.S.	France
Armor Inox UK Ltd	United Kingdom
Armor Inox USA LLC	Delaware
Auto-Bake Acquisition Pty. Ltd	Australia
Auto-Bake Pty Ltd	Australia
Automatic Bar Controls, Inc.	Delaware
Baker Thermal Solutions LLC	Delaware
Beech Ovens LLC	Delaware
Beech Ovens Pty Ltd	Australia
Blodgett Holdings, Inc.	Delaware
Britannia Kitchen Ventilation	United Kingdom
Carter-Hoffmann LLC	Delaware
Catering Equipment Industry srl	Italy
Cloverleaf Properties, Inc.	Vermont
Concordia Coffee Company, Inc.	Washington
CookTek Induction Systems, LLC	Delaware
Cozzini do Brasil Ltda	Brazil
Cozzini Middleby de Mexico, S. de R.L.de C.V.	Mexico
Cozzini Middleby Europe, S.r.l.	Italy
Cozzini, LLC	Delaware
Cranmore Property Ltd	United Kingdom
Danfotech Holdings, LLC	Delaware
Danfotech Inc.	Missouri
Desmon S.p.A.	Italy
Doyon Acquisition Company, LLC	Delaware
Doyon Equipment Inc.	Canada
Eswood Australia Pty Ltd	Australia
F.R. Drake Company	Delaware

Fab-Asia Inc.	Philippines
Fired Earth Ltd	United Kingdom
Follett Europe Polska sp. z.o.o.	Poland
Follett International sp. z.o.o.	Poland
Follett LLC	Pennsylvania
G.S. Blodgett Corporation	Vermont
Giga Grandi Cucine S.r.l.	Italy
Goldstein Eswood Commercial Cooking Pty Ltd	Australia
Goldstein Properties Pty Ltd	Australia
Grange Eastern Europe Inc.	Romania
Grange Furniture Canada (1989) Ltd	Canada
Grange Furniture Inc.	Delaware
Grange Luxembourg SARL	Luxembourg
Grange SAS	France
Heartland Appliances Inc.	Canada
Holman Cooking Equipment Inc.	Delaware
Houno A/S	Denmark
Houno Holdings LLC	Delaware
Imperial Machine Company Ltd	United Kingdom
J. Goldstein & Co. Pty Ltd	Australia
Jade Range LLC	Delaware
LA Cornue SAS	France
Lincat Group PLC	United Kingdom
Lincat Limited.	United Kingdom
Lynx Grills Inc	Delaware
Lynx Holdco Inc	Delaware
MagiKitch'n Inc.	Pennsylvania
Maurer-Atmos Middleby GmbH	Germany
Middleby Advantage, LLC	Delaware
Middleby Asia Ltd	Hong Kong
Middleby Australia Pty Ltd	Australia
Middleby Canada Company	Canada
Middleby Celfrost Innovations Pvt Ltd	India
Middleby China Corporation	Peoples Republic of China
Middleby Cooking System Manufacturing (Shanghai) Corporation	Peoples Republic of China
Middleby Cozzini Brasil Equipamentos, Ltda	Brazil
Middleby Espana SLU	Spain
Middleby Europe SL	Spain
Middleby Holding UK Ltd	United Kingdom
Middleby India Engineering Pvt Ltd	India
Middleby Induction China Corporation	Peoples Republic of China
Middleby Lux Holdings SCS	Luxembourg
Middleby Luxembourg S.a.r.l.	Luxembourg
Middleby Marshall Holding, LLC	Delaware
Middleby Marshall, Inc.	Delaware
Middleby Nationals Sales LLC	Delaware

Middleby Philippines Corporation	Philippines
Middleby UK Ltd	United Kingdom
Middleby UK Residential Holdings	United Kingdom
Middleby Worldwide Mexico SA de CV	Mexico
Middleby Worldwide Philippines	Philippines
Middleby Worldwide Services SA de CV	Mexico
Middleby Worldwide, Inc.	Florida
Middleby XME S.L.U.	Spain
MP Equipment LLC	Delaware
New Star International Holdings, Inc.	Delaware
Nieco Corporation	California
Northland Corporation	Michigan
Peak Drink Dispense Ltd	United Kingdom
Perfect Fry LLC	Delaware
Pitco Frialator, Inc.	New Hampshire
Star International Holdings, Inc.	Delaware
Star Manufacturing International Inc.	Delaware
Stewart Systems Baking, LLC	Delaware
The Alluvian Spa, LLC	Mississippi
The Alluvian, LLC	Mississippi
The Piper Doyon Group, Inc.	Wisconsin
Thurne-Middleby Ltd	United Kingdom
TMC Lux Holdings Sarl	Luxembourg
TMC Lux Sarl	Luxembourg
TMC Scots Holdings LP	United Kingdom
TMC Scottish Private Ltd	United Kingdom
TurboChef Technologies Europe, Ltd	United Kingdom
TurboChef Technologies Inc.	Delaware
ULC Holding Company	Delaware
U-Line Corporation	Wisconsin
Viking Cooking Schools, LLC	Mississippi
Viking Culinary Group, LLC	Mississippi
Viking Range Brasil Participacoes Ltda	Brazil
Viking Range Corporation do Brasil Importacao e Comercio Ltda	Brazil
Viking Range, LLC	Delaware
Waterford Stanley Ltd	Ireland
Wells Bloomfield LLC	Delaware
Wunder-Bar Europe S.r.o.	Czech Republic
Wunder-Bar Holdings, Inc.	Delaware
Wunder-Bar International, Inc.	California

(1) Certain subsidiaries have been omitted as allowed.

Exhibit 23.1

Consent of Independent Registered Public Accounting Firm

We consent to the incorporation by reference in the following Registration Statements:

(1) Registration Statement (Form S-8 No. 333-176233) pertaining to the 2011 Long-Term Incentive Plan of The Middleby Corporation,
(2) Registration Statement (Form S-8 No. 333-162957) pertaining to the Turbochef Technologies 1994 Stock Option Plan,
(3) Registration Statement (Form S-8 No. 333-142588) pertaining to the 2007 Stock Incentive Plan of The Middleby Corporation and
(4) Registration Statement (Form S-8 No. 333-128304) pertaining to the 1998 Stock Incentive Plan, 1989 Stock Incentive Plan, 2003 Directors' Option Plan, 2000 Directors Option Plan, and 1996 Directors' Option Plan of The Middleby Corporation;

of our reports dated March 1, 2017, with respect to the consolidated financial statements and schedule of the The Middleby Corporation and the effectiveness of internal control over financial reporting of the The Middleby Corporation, included in this Annual Report on Form 10-K of The Middleby Corporation for the year ended December 31, 2016.

Chicago, Illinois

March 1, 2017

EXHIBIT 31.1

CERTIFICATIONS

I, Selim A. Bassoul, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: March 1, 2017

/s/ Selim A. Bassoul

Selim A. Bassoul
Chairman, President and
Chief Executive Officer of The Middleby Corporation

EXHIBIT 31.2

CERTIFICATIONS

I, Timothy J. FitzGerald, certify that:

1. I have reviewed this Annual Report on Form 10-K 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: March 1, 2017

/s/ Timothy J. FitzGerald

Timothy J. FitzGerald

Chief Financial Officer of The Middleby Corporation

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)

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, Selim A. Bassoul, Chairman, President and 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 Annual Report on Form 10-K for the period ended December 31, 2016 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: March 1, 2017

/s/ Selim A. Bassoul

Selim A. Bassoul

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)

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, Vice President and 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 Annual Report on Form 10-K for the period ended December 31, 2016 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: March 1, 2017

/s/ Timothy J. FitzGerald

Timothy J. FitzGerald