MIDDLEBY CORP
Form 10-K
February 27, 2019

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

FORM 10-K

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

For the Fiscal Year Ended December 29, 2018
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 ý 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 ý
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 ý No ¨

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ý 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, a smaller reporting company, or an emerging growth company. See definition of "accelerated filer, large accelerated filer, smaller reporting company, and emerging growth company" in Rule 12b-2 of the Exchange Act.

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

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

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

The aggregate market value of the voting stock held by nonaffiliates of the Registrant as of June 30, 2018 was approximately $5,702,423,085.

The number of shares outstanding of the Registrant's class of common stock, as of February 25, 2019, was 55,703,466 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 2019 annual meeting of stockholders.

THE MIDDLEBY CORPORATION
DECEMBER 29, 2018
FORM 10-K ANNUAL REPORT

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PART I

Item 1. Business

General

The Middleby Corporation, a Delaware corporation (“Middleby” or the “company”), through its operating subsidiary Middleby Marshall Inc., a Delaware corporation (“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 10 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, warming, refrigeration, freezing and beverage application within a commercial kitchen or foodservice operation. This 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 fifty-one brands, including Anets, Bear Varimixer, Beech, Blodgett, Blodgett Combi, Blodgett Range, Bloomfield, Britannia, CTX, Carter-Hoffmann, Celfrost, Concordia, CookTek, Crown, Desmon, Doyon, Eswood, Firex, Follett, Frifri, Giga, Globe, Goldstein, Holman, Houno, IMC, Induc, Jade, JoeTap, Josper, L2F, Lang, Lincat, MagiKitch’n, Market Forge, Marsal, Middleby Marshall, MPC, Nieco, Nu-Vu, PerfectFry, Pitco, QualServ, Southbend, Star, Sveba Dahlen, Taylor, 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, food warming equipment, catering equipment, heated cabinets, charbroilers, ventless cooking systems, kitchen ventilation, induction cooking equipment, countertop cooking equipment, toasters, griddles, charcoal grills, professional mixers, stainless steel fabrication, custom millwork, professional refrigerators, blast chillers, coldrooms, ice machines, freezers, and soft serve, ice cream, coffee, and beverage dispensing equipment.

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 through automation.

This food processing equipment is marketed under a portfolio of twenty-one brands, including Alkar, Armor Inox, Auto-Bake, Baker Thermal Solutions, Burford, Cozzini, CVP Systems, Danfotech, Drake, Emico, Glimek, Hinds-Bock, Maurer-Atmos, MP Equipment, M-TEK, RapidPak, Scanico, Spooner Vicars, Stewart Systems, Thurne and Ve.Ma.C.

The products offered by this group include a wide array of cooking and baking solutions, including batch ovens, baking ovens, proofing ovens, conveyor belt 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, reduction and emulsion systems, mixers, blenders, battering equipment, breading equipment, seeding equipment, water cutting systems, food presses, food suspension equipment, filling and depositing solutions and forming equipment, as well as a variety of automated loading and unloading systems, food safety, food handling, freezing, defrosting 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, wine coolers, ice machines, ventilation equipment and outdoor equipment. These products are sold and marketed under a portfolio of eighteen brands, including AGA, AGA Cookshop, Brigade, Fired Earth, 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 fifteen 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 sixteen brands to the Middleby portfolio and positioned the company as a leading provider of equipment in each respective industry.

Commercial Foodservice Equipment Group

- June 2017: The company completed its acquisition of all of the capital stock of Sveba Dahlen Group ("Sveba Dahlen"), a developer and manufacturer of ovens and baking equipment for the commercial foodservice and industrial baking industries headquartered in Fristad, Sweden, for a purchase price of $81.4 million, net of cash acquired.

- August 2017: The company completed its acquisition of substantially all of the assets of QualServ Solutions LLC ("QualServ"), a global commercial kitchen design, manufacturing, engineering, project management and equipment solutions provider located in Fort Smith, Arkansas, for a purchase price of $39.9 million, net of cash acquired.

- October 2017: The company completed its acquisition of all of the capital stock of Globe Food Equipment Company ("Globe"), a leading brand in slicers and mixers for the commercial foodservice industry located in Dayton, Ohio, for a purchase price of $105.0 million, net of cash acquired.

- October 2017: The company completed its acquisition of all of the capital stock of L2F Inc. ("L2F"), an integrator of robotics and automation systems, located in Fremont, California for a purchase price of $7.5 million, net of cash acquired.

- March 2018: The company completed its acquisition of certain assets of JoeTap, a leading innovator of on-demand nitro and cold brew coffee dispensing equipment for the commercial foodservice industry for a purchase price of approximately $3.2 million.

- April 2018: The company completed its acquisition of all of the capital stock of Firex S.r.l. ("Firex"), a leading manufacturer of steam cooking equipment for the commercial foodservice industry located in Sedico, Italy, for a purchase price of approximately $53.7 million, net of cash acquired.

- May 2018: The company completed its acquisition of all of the issued share capital of Josper S.A. ("Josper"), a leading manufacturer of charcoal grill and oven cooking equipment for commercial foodservice and residential applications located in Pineda de Mar, Spain, for a purchase price of approximately $39.3 million, net of cash acquired.
- June 2018: The company completed its acquisition of all of the capital stock of the Taylor Company ("Taylor"), a world leader in beverage solutions, soft serve and ice cream dispensing equipment, frozen drink machines, and automated double-sided grills, located in Rockton, Illinois, for a purchase price of approximately $1.0 billion.
- December 2018: The company completed its acquisition of all of the capital stock of the Crown Food Service Equipment, Ltd. ("Crown"), a leading design and manufacturer of steam cooking equipment for the commercial foodservice industry located in Toronto, Canada, for a purchase price of approximately $42.0 million, net of cash acquired.

Food Processing Equipment Group

- May 2017: The company completed its acquisition of all of the capital stock of Burford Corp. ("Burford"). Burford is a leading manufacturer of industrial baking equipment for the food processing industry located in Maysville, Oklahoma, for a purchase price of approximately $14.8 million, net of cash acquired.
- June 2017: The company completed its acquisition of all of the capital stock of CVP Systems, Inc. ("CVP Systems"), a leading manufacturer of high-speed packaging systems for the meat processing industry located in Downers Grove, Illinois, for a purchase price of approximately $29.8 million, net of cash acquired.
- December 2017: The company completed its acquisition of all of the capital stock of Scanico A/S ("Scanico"), a leading manufacturer of industrial cooling and freezing equipment for the food processing industry located in Aalborg, Denmark, for a purchase price of $34.5 million, net of cash acquired.
- February 2018: The company completed its acquisition of all of the capital stock of Hinds-Bock Corporation ("Hinds-Bock"), a leading manufacturer of solutions for filling and depositing bakery and food product located in Bothell, Washington, for a purchase price of $25.4 million, net of cash acquired.
- April 2018: The company completed its acquisition of all of the capital stock of Ve.Ma.C S.r.l. ("Ve.Ma.C"), a leading designer and manufacturer of handling, automation and robotics solutions for protein food processing lines located in Castelnuovo Rangone, Italy, for a purchase price of approximately $10.5 million, net of cash acquired.
- October 2018: The company completed its acquisition of all of the capital stock of the M-TEK Corporation ("M-TEK"), a leading manufacturer of Modified Atmospheric Packaging (MAP) systems located in Elgin, Illinois, for a purchase price of approximately $20.0 million.

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 growth 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, warming, refrigeration, freezing and beverage dispensing equipment segment of this market is estimated by management to exceed $3.0 billion in North America and $5.0 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 $3.0 billion in North America and $5.0 billion worldwide.

Residential Kitchen Equipment Industry

The company’s end-users include customers with 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 and $3.0 billion worldwide. The market potential for such equipment has continued to broaden due to an increase in interest from the consumer to have professional style higher performing appliances in their home. The kitchen has been an area in which consumers have invested over the past several decades to increase the personal satisfaction and the value of 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 variability in the revenues at this segment.

Backlog

Commercial Foodservice Equipment Group

The backlog of orders for the Commercial Foodservice Equipment Group was $134.5 million at December 29, 2018, most all of which is expected to be filled during 2019. The acquired Firex, Josper, Taylor and Crown businesses accounted for $26.5 million of the backlog. The Commercial Foodservice Equipment Group's backlog was $105.2 million at December 30, 2017. 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 $103.5 million at December 29, 2018, all of which is expected to be filled during 2019. The acquired Hinds-Bock, Ve.Ma.C and M-TEK businesses accounted for $21.9 million of the backlog. The Food Processing Equipment Group's backlog was $61.6 million at December 30, 2017.

Residential Kitchen Equipment Group

The backlog of orders for the Residential Kitchen Equipment Group was $47.8 million at December 29, 2018, all of which is expected to be filled during 2019. The Residential Kitchen Equipment Group's backlog was $35.0 million at December 30, 2017. 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 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 distribution operations 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: Welbilt, 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 Sub-Zero, 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 seventeen domestic and fifteen international production facilities. These production facilities are located in Fort Smith, Arkansas; Brea, California; Vacaville, California; Windsor, California; Elgin, Illinois; Mundelein, Illinois; Rockton, Illinois; Menominee, Michigan; Bow, New Hampshire; Fuquay-Varina, North Carolina; Dayton, Ohio; Bethlehem, Pennsylvania; Easton, Pennsylvania; Smithville, Tennessee; Carrollton, Texas; Essex Junction, Vermont; Redmond, Washington; New South Wales, Australia; Toronto, Canada; Shanghai, China; Brondby, Denmark; Randers, Denmark; Viljandi, Estonia; Nusco, Italy; Scandicci, Italy; Sedico, Italy; Laguna, the Philippines; Wislina, Poland; Pineda de Mar, Spain; Fristad, Sweden; Lincoln, the United Kingdom; and Wrexham, the United Kingdom.

The Food Processing Equipment Group manufactures its products in eleven domestic and six international production facilities. These production facilities are located in Gainesville, Georgia; Chicago, Illinois; Downers Grove, Illinois; Elgin, Illinois; Algona, Iowa; Clayton, North Carolina; Maysville, Oklahoma; Plano, Texas; Waynesboro, Virginia; Bothell, Washington; Lodi, Wisconsin; Aalborg, Denmark; Mauron, France; Reichenau, Germany; Bangalore, India; Castelnuovo Rangone, Italy and Norwich, the United Kingdom.

The Residential Kitchen Equipment Group manufactures its products in six domestic and five international production facilities. These production facilities are located in Downey, California; Greenville, Michigan; Greenwood, Mississippi (three separate facilities); Brown Deer, Wisconsin; Saint Ouen L'aumone, France; Waterford, Ireland; 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(n) 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, Bear Varimixer, Beech, Blodgett, Blodgett Combi, Blodgett Range, Bloomfield, Britannia, CTX, Carter-Hoffmann, Celfrost, Concordia, CookTek, Crown, Desmon, Doyon, Eswood, Firex, Follett, Frifri, Giga, Globe, Goldstein, Holman, Houno, IMC, Induc, Jade, JoeTap, Josper, L2F, Lang, Lincat, MagiKitch’n, Market Forge, Marsal, Middleby Marshall, MPC, Nieco, Nu-Vu, PerfectFry, Pitco, QualServ, Southbend, Star, Sveba Dahlen, Taylor, 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, Burford, Cozzini, CVP Systems, Danfotech, Drake, Emico, Glimek, Hinds-Bock, Maurer-Atmos, MP Equipment, M-TEK, RapidPak, Scanico, Spooner Vicars, Stewart Systems, Thurne and Ve.Ma.C.

The company's leading portfolio of trade names of its Residential Kitchen Equipment Group include AGA, AGA Cookshop, Brigade, Fired Earth, 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

As of December 29, 2018, 9,346 persons were employed by the company and its subsidiaries among the various groups as described below.

Commercial Foodservice Equipment Group

As of December 29, 2018, 5,425 persons were employed within the Commercial Foodservice Equipment Group. Of this amount, 2,271 were management, administrative, sales, engineering and supervisory personnel; 2,676 were hourly production non-union workers; and 478 were hourly production union members. Included in these totals were 2,197 individuals employed outside of the United States, of which 1,184 were management, sales, administrative and engineering personnel, 871 were hourly production non-union workers and 142 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, 2022. 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 29, 2018, 1,411 persons were employed within the Food Processing Equipment Group. Of this amount, 726 were management, administrative, sales, engineering and supervisory personnel; 576 were hourly production non-union workers; and 109 were hourly production union members. Included in these totals were 571 individuals employed outside of the United States, of which 342 were management, sales, administrative and engineering personnel and 229 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, 2021. At its Algona, Iowa facility, the company has a union contract with the United Food and Commercial Workers that expires on December 30, 2022. Management believes that the relationships between employees, unions and management are good.

Residential Kitchen Equipment Group

As of December 29, 2018, 2,474 persons were employed within the Residential Kitchen Equipment Group. Of this amount, 1,129 were management, administrative, sales, engineering and supervisory personnel and 1,345 were hourly production workers. Included in these totals were 1,279 individuals employed outside of the United States, of which 723 were management, sales, administrative and engineering personnel and 556 were hourly non-union production workers. Management believes that the relationships between employees and management are good.

Corporate

As of December 29, 2018, 36 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 and third quarters, due to increased purchases of outdoor cooking equipment and greater new home construction and remodels during the summer months, and the fourth quarter, due to increased holiday purchases in the European markets.

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 results of the United Kingdom's referendum on withdrawal from the European Union may have a negative effect on global economic conditions, financial markets or the Company's business.

In June 2016, a majority of voters in the United Kingdom elected to withdraw from the European Union in a national referendum. The U.K. is currently negotiating the terms of its exit from the European Union ("Brexit") scheduled for March 29, 2019. In November 2018, the U.K. and the European Union agreed upon a draft Withdrawal Agreement that sets out the terms of the U.K.'s departure, including commitments on citizen rights after Brexit, a financial settlement from the U.K., and a transition period from March 29, 2019 through December 31, 2020 to allow time for a future trade deal to be agreed. On January 15, 2019, the draft Withdrawal Agreement was rejected by the U.K. Parliament creating significant uncertainty about the terms and timing under which the U.K. will leave the European Union.

If the U.K. leaves the European Union with no agreement ("hard Brexit"), it will likely have an adverse impact on labor and trade in addition to creating further short-term uncertainty and currency volatility. In the absence of a future trade deal, the U.K.'s trade with the European Union and the rest of the world would be subject to tariffs and duties set by the World Trade Organization. Additionally, the movement of goods between the U.K. and the remaining member states of the European Union will be subject to additional inspections and documentation checks, leading to possible delays at ports of entry and departure. These changes to the trading relationship between the U.K and European Union would likely result in increased cost of goods imported into and exported from the U.K. and may decrease the profitability of the Company's U.K. and other operations. Additional currency volatility could drive a weaker British pound, which increases the cost of goods imported into the U.K. operations and may decrease the profitability of the U.K. operations. A weaker British pound versus the U.S. dollar also causes local currency results of U.K. operations to be translated into fewer U.S. dollars during a reporting period. With a range of outcomes still possible, the impact from Brexit remains uncertain and will depend, in part, on the final outcome of tariff, trade, regulatory and other negotiations.

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 29, 2018, the company had $1,892.1 million of borrowings and $12.1 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.

Fluctuations in Interest Rates Could Adversely Affect Our Results of Operations and Financial Position.

Our profitability may be adversely affected during any periods of unexpected or rapid increases in interest rates. We maintain a
revolving credit facility, which, at December 29, 2018, bore interest at either 1.63% above LIBOR per annum or 0.63% above
the highest of the prime rate, the federal funds rate plus 0.50% and one month LIBOR plus 1.00%. A significant increase in any
of the forgoing rates would significantly increase our cost of borrowings, reduce the availability and increase the cost of
obtaining new debt and refinancing existing indebtedness and/or negatively impact the market price of our common stock. For
additional detail related to this risk, see Part II, Item 7A, "Quantitative and Qualitative Disclosure About Market Risk."

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 38% of its total assets as of December 29, 2018. 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, including recently imposed tariffs with respect to certain products imported from China or exported to China;
- withdrawal from or renegotiation of international trade agreements and other restrictions on trade between the United States and other countries;
- effects of the United Kingdom's decision to exit the European Union and related potential disruption to trade;
- 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 6% of the company's workforce as of December 29, 2018. 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 2022, July 2022, May 2019 and December 2021, respectively. The company also has a union workforce at its manufacturing facility in the Philippines under a contract that extends through June 2021. Approximately 2% 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, increase costs and/or 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, corruption or destruction of data and other manipulation or improper use of systems or networks. These events could negatively impact the company's customers and/or reputation and lead to financial losses from remediation actions, loss of business, production downtimes, operational delays or potential liability, penalties, fines or other increases in expense, all of which may have a material adverse effect on the company's business. In addition, as security threats and cybersecurity and data privacy and protection laws and regulations continue to evolve and increase in terms of sophistication, we may invest additional resources in the security of our systems. Any such increased level of investment could adversely affect our financial condition or results of operations.

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 thirty-four manufacturing facilities in the U.S. and twenty-six 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:				
Fort Smith, AK	Manufacturing, Warehousing and Offices	440,200	Leased	Aug-24
Brea, CA	Manufacturing, Warehousing and Offices	80,700	Leased	Sep-20
Vacaville, CA	Manufacturing, Warehousing and Offices	81,200	Leased	May-27
Windsor, CA	Manufacturing, Warehousing and Offices	75,000	Leased	Oct-22
Elgin, IL	Manufacturing, Warehousing and Offices	207,000	Owned	N/A
Mundelein, IL	Manufacturing, Warehousing and Offices	70,000	Owned	N/A
Rockton, IL	Manufacturing, Warehousing and Offices	339,400	Owned	N/A
South Beloit, IL	Warehousing	130,900	Leased	Jun-23
Menominee, MI	Manufacturing, Warehousing and Offices	60,000	Owned	N/A
Bow, NH	Manufacturing, Warehousing and Offices	100,000	Owned	N/A
Concord, NH	Warehousing	39,000	Leased	Mar-19
Pembroke, NH	Warehousing	111,900	Leased	Jul-24
Fuquay-Varina, NC	Manufacturing, Warehousing and Offices	183,900	Owned	N/A
Dayton, OH	Manufacturing, Warehousing and Offices	37,700	Owned	N/A
Bethlehem, PA	Manufacturing, Warehousing and Offices	72,900	Leased	Dec-24
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	Aug-22
Essex Junction, VT	Manufacturing, Warehousing and Offices	180,000	Owned	N/A
Redmond, WA	Manufacturing, Warehousing and Offices	42,400	Leased	May-22
New South Wales, Australia	Manufacturing, Warehousing and Offices	204,900	Owned	N/A
Toronto, Canada	Manufacturing, Warehousing and Offices	101,500	Owned	N/A
Shanghai, China	Manufacturing, Warehousing and Offices	74,000	Leased	Apr-20
Brøndby, Denmark	Manufacturing, Warehousing and Offices	50,900	Owned	N/A
Randers, Denmark	Manufacturing, Warehousing and Offices	50,100	Owned	N/A
Viljandi, Estonia	Manufacturing and Offices	47,000	Owned	N/A
Nusco, Italy	Manufacturing, Warehousing and Offices	260,600	Owned	N/A
Scandicci, Italy	Manufacturing, Warehousing and Offices	37,600	Leased	Apr-25
Sedico, Italy	Manufacturing, Warehousing and Offices	52,500	Leased	Feb-24
Laguna, the Philippines	Manufacturing, Warehousing and Offices	115,200	Owned	N/A
Wiślina, Poland	Manufacturing, Warehousing and Offices	77,500	Owned	N/A
Pineda de Mar, Spain	Manufacturing, Warehousing and Offices	50,100	Owned	N/A
Fristad, Sweden	Manufacturing, Warehousing and Offices	173,700	Owned	N/A
Lincoln, the United Kingdom	Manufacturing, Warehousing and Offices	100,000	Owned	N/A
Wrexham, the United Kingdom	Manufacturing, Warehousing and Offices	62,600	Owned	N/A

Food Processing:

Gainesville, GA	Manufacturing, Warehousing and Offices	107,000	Owned	N/A
Chicago, IL	Manufacturing, Warehousing and Offices	64,400	Leased	Mar-19
Downers Grove, IL	Manufacturing, Warehousing and Offices	18,000	Leased	Jul-19
Elgin, IL	Manufacturing, Warehousing and Offices	25,000	Owned	N/A
Algona, IA	Manufacturing, Warehousing and Offices	70,100	Owned	N/A
Clayton, NC	Manufacturing, Warehousing and Offices	65,300	Leased	Oct-24
Maysville, OK	Manufacturing, Warehousing and Offices	36,700	Owned	N/A
Plano, TX	Manufacturing, Warehousing and Offices	339,100	Leased	Apr-22

Waynesboro, VA	Manufacturing, Warehousing and Offices	26,400	Owned	N/A
Bothell, WA	Manufacturing, Warehousing and Offices	23,600	Leased	May-25
Lodi, WI	Manufacturing, Warehousing and Offices	114,600	Owned	N/A
Aalborg, Denmark	Manufacturing, Warehousing and Offices	68,300	Leased	Dec-22
Mauron, France	Manufacturing, Warehousing and Offices	98,000	Leased	Jan-23
Reichenau, Germany	Manufacturing, Warehousing and Offices	57,900	Owned	N/A
Bangalore, India	Manufacturing, Warehousing and Offices	75,000	Leased	Feb-22
Castelnuovo Rangone, Italy	Manufacturing, Warehousing and Offices	26,900	Leased	Dec-20
Norwich, the United Kingdom	Manufacturing, Warehousing and Offices	30,000	Owned	N/A

Location	Principal Function	Square Footage	Owned/ Leased	Lease Expiration
Residential Kitchen:				
Chino, CA	Warehousing and Offices	100,000	Leased	Apr-21
Downey, CA	Manufacturing, Warehousing and Offices	122,500	Leased	Dec-19
Burford, GA	Warehousing and Offices	178,000	Leased	Jun-22
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	165,400	Leased	May-22
Saint Ouen L'aumone , France	Manufacturing, Warehousing	30,400	Leased	Apr-21
Waterford, Ireland	Manufacturing, Warehousing and Offices	73,000	Leased	Jul-27
Adderbury, the United Kingdom	Warehousing and Offices	82,500	Leased	Aug-20
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	Aug-19
Nottingham, the United Kingdom	Manufacturing and Offices	153,100	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 Australia, Brazil, Canada, China, Czech Republic, Denmark, Dubai, France, India, Italy, Mexico, Russia, 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.

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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".

Shareholders

The company estimates there were approximately 65,228 record holders of the company's common stock as of February 25, 2019.

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.

Securities Authorized for Issuance under Equity Compensation Plans

For information pertaining to securities authorized for issuance under equity compensation plans and the related weighted average exercise price, see Part III, Item 12, “Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.”

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)
September 30 to October 27, 2018	—	$ —	—	2,373,800
October 28 to November 24, 2018	—	—	—	2,373,800
November 25 to December 29, 2018	—	—	—	2,373,800

Quarter ended December 29, 2018	—	$	——	2,373,800

(1) In November 2017, the company's Board of Directors approved a stock repurchase program. This program authorizes the company to repurchase in the aggregate up to 2,500,000 shares of its outstanding common stock. As of December 29, 2018, 126,200 shares had been purchased under the 2017 stock repurchase program. At December 29, 2018, the company had a total of 6,889,241 shares in treasury amounting to $445.1 million.

Item 6. Selected Financial Data

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

	2018	2017	2016	2015	2014
Income Statement Data:					
Net sales	$2,722,931	$2,335,542	$2,267,852	$1,826,598	$1,636,538
Cost of sales	1,718,791	1,422,801	1,366,672	1,120,093	995,953
Gross profit	1,004,140	912,741	901,180	706,505	640,585
Selling, general, and administrative expenses	538,842	468,219	471,638	378,366	339,507
Restructuring expenses	19,332	19,951	10,524	28,754	7,078
Gain on litigation settlement	—	—	—	—	(6,519)
Gain on sale of plant	—	(12,042)	—	—	—
Impairment of intangible asset	—	58,000	—	—	—
Income from operations	445,966	378,613	419,018	299,385	300,519
Interest expense and deferred financing amortization, net	58,742	25,983	23,880	16,967	15,592
Net periodic pension benefit (other than service costs)	(38,114)	(31,728)	(27,207)	(3,218)	87
Other expense, net	1,825	829	1,040	4,469	4,050
Earnings before income taxes	423,513	383,529	421,305	281,167	280,790
Provision for income taxes	106,361	85,401	137,089	89,557	87,478
Net earnings	$317,152	$298,128	$284,216	$191,610	$193,312
Net earnings per share:					
Basic	$5.71	$5.26	$4.98	$3.36	$3.41
Diluted	$5.70	$5.26	$4.98	$3.36	$3.40
Weighted average number of shares outstanding:					
Basic	55,576	56,715	57,030	56,951	56,764
Diluted	55,604	56,719	57,085	56,973	56,784
Balance Sheet Data:					
Working capital	$502,642	$458,236	$323,290	$285,191	$285,817
Total assets	4,549,781	3,339,713	2,917,136	2,761,151	2,066,131
Total debt	1,892,105	1,028,881	732,126	766,061	598,167
Stockholders' equity	1,665,203	1,361,148	1,265,318	1,166,830	1,006,760

(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 Note 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 impact of announced management and organizational changes;
- 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)	2018 Sales	Percent	2017 Sales	Percent	2016 Sales	Percent
Business Segments:						
Commercial Foodservice	$1,729,814	63.5 %	$1,382,108	59.2 %	$1,266,955	55.9 %
Food Processing	389,594	14.3	352,717	15.1	342,235	15.1
Residential Kitchen	603,523	22.2	600,717	25.7	658,662	29.0
Total	$2,722,931	100.0%	$2,335,542	100.0%	$2,267,852	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)		
	2018	2017	2016
Net sales	100.0 %	100.0 %	100.0 %
Cost of sales	63.1	60.9	60.3
Gross profit	36.9	39.1	39.7
Selling, general and administrative expenses	19.8	20.0	20.8
Restructuring	0.7	0.9	0.5
Gain on sale of plant	—	(0.5)	—
Impairment of intangible assets	—	2.5	—
Income from operations	16.4	16.2	18.4
Interest expense and deferred financing amortization, net	2.2	1.1	1.1
Net periodic pension benefit (other than service costs)	(1.4)	(1.3)	(1.2)
Other expense, net	0.1	—	—
Earnings before income taxes	15.5	16.4	18.5
Provision for income taxes	3.9	3.7	6.0
Net earnings	11.6 %	12.7 %	12.5 %

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

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Fiscal Year Ended December 29, 2018 as Compared to December 30, 2017

NET SALES. Net sales in fiscal 2018 increased by $387.4 million, or 16.6%, to $2,722.9 million as compared to $2,335.5 million in fiscal 2017. The increase in net sales of $375.2 million, or 16.1%, was attributable to acquisition growth, resulting from the fiscal 2017 acquisitions of Burford, CVP Systems, Sveba Dahlen, QualServ, L2F, Globe, and Scanico and the fiscal 2018 acquisitions of Hinds-Bock, Ve.Ma.C, Firex, Josper, Taylor, M-TEK, and Crown. Excluding acquisitions, net sales increased $12.2 million, or 0.5%, from the prior year. The impact of foreign exchange rates on foreign sales translated into U.S. Dollars for fiscal 2018 increased net sales by approximately $9.4 million or 0.4%. The adoption of ASC 606 increased net sales by approximately $20.6 million primarily related to previously recognized revenue on long-term equipment sales and contracts at the Food Processing Equipment Group. Excluding the impact of foreign exchange, acquisitions and the adoption of ASC 606, sales decreased 0.8% for the year, including a net sales increase of 3.1% at the Commercial Foodservice Equipment Group, a net sales decrease of 15.7% at the Food Processing Equipment Group and a net sales decrease of 0.9% at the Residential Kitchen Equipment Group.

- Net sales of the Commercial Foodservice Equipment Group increased by $347.7 million, or 25.2%, to $1,729.8 million in fiscal 2018 as compared to $1,382.1 million in fiscal 2017. Net sales from the acquisitions of Sveba Dahlen, QualServ, L2F, Globe, Firex, Josper, Taylor, and Crown which were acquired on June 30, 2017, August 31, 2017, October 6, 2017, October 17, 2017, April 27, 2018, May 10, 2018, June 22, 2018, and December 3, 2018, respectively, accounted for an increase of $304.7 million during fiscal 2018. Excluding the impact of acquisitions, net sales of the Commercial Foodservice Equipment Group increased $43.0 million, or 3.1%, as compared to the prior year. Excluding the impact of foreign exchange and acquisitions, net sales increased $42.9 million, or 3.1% at the Commercial Foodservice Equipment Group. Domestically, the company realized a sales increase of $207.5 million, or 21.4%, to $1,176.0 million, as compared to $968.5 million in the prior year. This includes an increase of $166.6 million from recent acquisitions. Excluding acquisitions, net sales increased $40.9 million, or 4.2%, related to increased sales with major chain restaurants and retail customers. International sales increased $140.2 million, or 33.9%, to $553.8 million, as compared to $413.6 million in the prior year. This includes the increase of $138.1 million from recent acquisitions and an increase of $0.1 million related to the favorable impact of exchange rates. Excluding acquisitions and foreign exchange, the net sales increase in international sales was $2.0 million, or 0.5%.

- Net sales of the Food Processing Equipment Group increased by $36.9 million, or 10.5%, to $389.6 million in fiscal 2018, as compared to $352.7 million in fiscal 2017. Net sales from the acquisitions of Burford, CVP Systems, Scanico, Hinds-Bock, Ve.Ma.C, and M-TEK which were acquired on May 1, 2017, June 30, 2017, December 7, 2017, February 16, 2018, April 3, 2018, and October 1, 2018, respectively, accounted for an increase of $70.5 million. Excluding the impact of these acquisitions, net sales of the Food Processing Equipment Group decreased $33.6 million, or 9.5%. The adoption of ASC 606 increased net sales by approximately $20.6 million. Excluding the impact of foreign exchange, acquisitions, and ASC 606 net sales decreased $55.4 million, or 15.7% at the Food Processing Equipment Group. Domestically, the company realized a sales increase of $7.0 million, or 2.7%, to $263.7 million, as compared to $256.7 million in the prior year. This includes an increase of $33.2 million from recent acquisitions. Excluding acquisitions, net sales decreased $26.2 million, or 10.2%. International sales increased $29.9 million, or 31.1%, to $125.9 million, as compared to $96.0 million in the prior year. This includes the increase of $37.3 million from the recent acquisitions and an increase of $1.2 million related to the favorable impact of exchange rates. Excluding acquisitions and foreign exchange, the net sales decrease in international sales was $8.6 million, or 9.0%. Revenues for the Food Processing Equipment Group have been affected by the timing and deferral of certain larger projects.

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Net sales of the Residential Kitchen Equipment Group increased by $2.8 million, or 0.5%, to $603.5 million in fiscal 2018, as compared to $600.7 million in fiscal 2017. Excluding the impact of foreign exchange, net sales decreased $5.3 million, or 0.9% at the Residential Kitchen Equipment Group. Domestically, the company realized a sales increase of $22.5 million, or 6.5%, to $366.7 million, as compared to $344.2 million in the prior year. Sales at Viking increased by approximately 15% in fiscal 2018. International sales decreased $19.7 million, or 7.7% to $236.8 million, as compared to $256.5 million in the prior year. This includes a favorable impact of exchange rates of $8.1 million. Excluding foreign exchange, the net sales decrease in international sales was $27.8 million, or 10.8%, related to slower conditions in the UK market. In addition, sales decreased at non-core businesses, acquired in connection with AGA, and have been impacted by restructuring initiatives. Restructuring initiatives at Grange, one of the non-core businesses, was substantially completed at the end of fiscal 2018.

GROSS PROFIT. Gross profit increased by $91.4 million to $1,004.1 million in fiscal 2018 from $912.7 million in fiscal 2017, reflecting the impact of increased sales from acquisitions, adoption of ASC 606 and favorable impact of foreign exchange rates of $3.9 million. The gross margin rate decreased from 39.1% in 2017 to 36.9% in 2018. The gross margin rate in fiscal 2018 excluding acquisitions, adoption of ASC 606 and impact of foreign exchange was 38.4%.

- Gross profit at the Commercial Foodservice Equipment Group increased by $106.6 million, or 19.3%, to $658.5 million in fiscal 2018 as compared to $551.9 million in fiscal 2017. Gross profit from the acquisitions of Sveba Dahlen, QualServ, L2F, Globe, Firex, Josper, Taylor, and Crown accounted for approximately $80.5 million of the increase in gross profit during fiscal 2018. Excluding acquisitions, the gross profit increased by approximately $26.1 million due to higher sales volume. The impact of foreign exchange rates increased gross profit by approximately $0.6 million. The gross profit margin rate decreased to 38.1% as compared to 39.9% in the prior year, primarily due to lower margins at recent acquisitions. The gross margin rate in fiscal 2018 excluding acquisitions and impact of foreign exchange was 40.5%.

- Gross profit at the Food Processing Equipment Group decreased by $9.5 million, or 6.6%, to $133.6 million in fiscal 2018 as compared to $143.1 million in fiscal 2017. Gross profit from the acquisitions of Burford, CVP Systems, Scanico, Hinds-Bock, Ve.Ma.C, and M-TEK accounted for approximately $25.1 million of the increase in gross profit during fiscal 2018. The adoption of ASC 606 increased gross profit by approximately $5.3 million. Excluding the recent acquisitions and adoption of ASC 606, the gross profit decreased by approximately $39.9 million based on lower sales volumes. The impact of foreign exchange rates increased gross profit by approximately $0.8 million. The gross profit margin rate decreased to 34.3% in fiscal 2018 as compared to 40.6% in the prior year, reflecting the impact of lower volumes and unfavorable product mix resulting from lesser sales of protein equipment which generally have higher margins. The gross margin rate in fiscal 2018 excluding acquisitions, adoption of ASC 606, and impact of foreign exchange was 34.4%.

- Gross profit at the Residential Kitchen Equipment Group decreased by $5.8 million, or 2.6%, to $217.1 million in fiscal 2018 as compared to $222.9 million in fiscal 2017. The impact of foreign exchange rates increased gross profit by approximately $2.5 million. The gross margin rate decreased to 36.0% in fiscal 2018 as compared to 37.1% in the prior year, primarily related to the impact of domestic distribution changes and sales incentives for the Viking brand. The gross margin rate in fiscal 2018 excluding the impact of foreign exchange was 36.0%.

SELLING, GENERAL, AND ADMINISTRATIVE EXPENSES. Combined selling, general, and administrative expenses increased by $70.6 million to $538.8 million in fiscal 2018 from $468.2 million in 2017. As a percentage of net sales, selling, general and administrative expenses amounted to 19.8% in fiscal 2018 and 20.0% in fiscal 2017.

Selling, general and administrative expenses reflect increased costs of $78.3 million associated with the fiscal 2017 acquisitions of Burford, CVP Systems, Sveba Dahlen, QualServ, L2F, Globe, and Scanico and the fiscal 2018 acquisitions of Hinds-Bock, Ve.Ma.C, Firex, Josper, Taylor, M-TEK, and Crown, including $27.1 million of non-cash intangible amortization expense. The unfavorable impact of foreign exchange rates increased selling, general and administrative expenses by approximately $3.0 million. Additionally, selling, general and administrative expenses decreased by $3.7 million related to lower non-cash share based compensation and $5.7 million related to lower intangible amortization expense.

RESTRUCTURING EXPENSES. Restructuring expenses decreased $0.7 million to $19.3 million from $20.0 million in the prior year period. In fiscal 2018, restructuring charges primarily related to exiting operations of a non-core business in the Residential Kitchen Equipment Group, headcount reductions at the Commercial Foodservice

Equipment Group and additional cost reduction initiatives related to the AGA Group. Restructuring expenses during fiscal 2017 included cost reduction initiatives primarily related to headcount reductions at all three operating segments.

GAIN ON SALE OF PLANT. In fiscal 2017, the gain on sale of plant in the amount of $12.0 million was related to the sale of a manufacturing facility, proceeds of which were used to purchase a larger manufacturing facility to gain efficiencies in workflow and allow for future manufacturing consolidation efforts.

IMPAIRMENT OF INTANGIBLE ASSET. In fiscal 2017, the impairment of intangible asset in the amount of $58.0 million was recognized related to the Viking tradename within the company's annual impairment assessment of goodwill and indefinite-lived assets. The impairment resulted from weaker than expected revenue performance in 2017 and a corresponding reduction in the future revenue expectations. The decline in revenues was attributable, in part, to the product recall announced in 2015 related to products manufactured prior to the acquisition of Viking.

INCOME FROM OPERATIONS. Income from operations increased $67.4 million to $446.0 million in fiscal 2018 from $378.6 million in fiscal 2017. Operating income as a percentage of net sales amounted to 16.4% in 2018 as compared to 16.2% in 2017. The increase in operating income resulted from the increase in net sales and gross profit, offset partially by increased operating expenses. Operating income in fiscal 2017 included the gain on sale of plant and impairment of intangible assets. Excluding the impact of restructuring expenses, gain on sale of plant, and impairment of intangible assets, operating income increased $20.7 million to $465.3 million in fiscal 2018 from $444.6 million in fiscal 2017. Operating income as a percentage of net sales, excluding those items, amounted to 17.1% in 2018 in comparison to 19.0% in 2017, reflecting the impact of acquisitions.

Income from operations in 2018 included $98.3 million of non-cash expenses, including $35.8 million of depreciation expense, $60.0 million of intangible amortization related to acquisitions and $2.5 million of stock based compensation. This compares to $132.5 million of non-cash expenses in the prior year, including $29.7 million of depreciation expense, $38.6 million of intangible amortization related to acquisitions, $58.0 million related to the impairment of intangible asset and $6.2 million of stock based compensation costs.

NON-OPERATING EXPENSES. Non-operating expenses increased $27.3 million to $22.4 million of expense in fiscal 2018 from $4.9 million of income in fiscal 2017. Net interest expense and deferred financing increased $32.7 million to $58.7 million in fiscal 2018 from $26.0 million in fiscal 2017 reflecting higher interest rates and higher debt balances related to the funding of acquisitions. Net periodic pension benefit (other than service costs) increased $6.4 million to $38.1 million in fiscal 2018 from $31.7 million in fiscal 2017.

INCOME TAXES. A tax provision of $106.4 million, at an effective rate of 25.1%, was recorded for fiscal 2018 as compared to $85.4 million at an effective rate of 22.3%, in fiscal 2017. In comparison to the prior year period, the tax provision reflects a lower federal tax rate of 21.0% as opposed to 35.0% in 2017, partially offset by additional taxes due under the Tax Cuts and Jobs Act of 2017. The 2017 tax provision was lower than the statutory rate of 35.0% primarily due to deferred tax adjustments resulting from the tax rate reduction to 21% under the Tax Cuts and Job Act of 2017, discrete tax benefit recognized as a result of the adoption of ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Accounting" and the reversal of a valuation allowance.

Fiscal Year Ended December 30, 2017 as Compared to December 31, 2016

NET SALES. Net sales in fiscal 2017 increased by $67.6 million or 3.0% to $2,335.5 million as compared to $2,267.9 million in fiscal 2016. The increase in net sales of $161.9 million, or 7.1%, was attributable to acquisition growth, resulting from the fiscal 2016 acquisition of Follett and the fiscal 2017 acquisitions of Burford, CVP Systems, Sveba Dahlen, QualServ, L2F, Globe and Scanico. Excluding acquisitions, net sales decreased $94.3 million, or 4.2%, from the prior year. The impact of foreign exchange rates on foreign sales translated into U.S. Dollars for fiscal 2017 reduced net sales by approximately $12.0 million or 0.5%. Excluding the impact of foreign exchange and acquisitions, sales decreased 3.6% for the year, including a net sales decrease of 1.8% at the Commercial Foodservice Equipment Group, a net sales decrease of 3.5% at the Food Processing Equipment Group and a net sales decrease of 7.2% at the Residential Kitchen Equipment Group.

- Net sales of the Commercial Foodservice Equipment Group increased by $115.1 million or 9.1% to $1,382.1 million in fiscal 2017, as compared to $1,267.0 million in fiscal 2016. Net sales from the acquisitions of Follett, Sveba Dahlen, QualServ, L2F and Globe, which were acquired on May 31, 2016, June 30, 2017, August 31, 2017, October 6, 2017 and October 17, 2017, respectively, accounted for an increase of $140.2 million during fiscal 2017. Excluding the impact of acquisitions, net sales of the Commercial Foodservice Equipment Group decreased $25.1 million, or 2.0%, as compared to the prior year. Excluding the impact of foreign exchange and acquisitions, net sales decreased $22.5 million, or 1.8% at the Commercial Foodservice Equipment Group. Domestically, the company realized a sales increase of $81.9 million, or 9.2%, to $968.5 million, as compared to $886.6 million in the prior year. This includes an increase of $102.5 million from recent acquisitions. Excluding acquisitions, net sales decreased $20.6 million, or 2.3%. The domestic sales decrease reflects slower purchases from major restaurant chains as equipment upgrade and replacement purchases were delayed. International sales increased $33.2 million, or 8.7%, to $413.6 million, as compared to $380.4 million in the prior year. This includes the increase of $37.7 million from the recent acquisitions, offset by $2.6 million related to the unfavorable impact of exchange rates. Excluding acquisitions and foreign exchange, the net sales decrease in international sales was $1.9 million, or 0.5%. The decline in international sales reflects strong chain rollouts in the prior year that were not repeated and disruption in the Latin America market due in part to natural disasters in the region.

- Net sales of the Food Processing Equipment Group increased by $10.5 million or 3.1% to $352.7 million in fiscal 2017, as compared to $342.2 million in fiscal 2016. Net sales from the acquisitions of Burford, CVP Systems and Scanico, which were acquired on May 1, 2017, June 30, 2017, and December 7, 2017, respectively, accounted for an increase of $21.7 million. Excluding the impact of these acquisitions, net sales of the Food Processing Equipment Group decreased $11.2 million, or 3.3%. Excluding the impact of foreign exchange and acquisitions, net sales decreased $12.1 million, or 3.5% at the Food Processing Equipment Group. Domestically, the company realized a sales increase of $9.1 million, or 3.7%, to $256.7 million, as compared to $247.6 million in the prior year. This includes an increase of $14.9 million from recent acquisitions. Excluding acquisitions, net sales decreased $5.8 million, or 2.3%. International sales increased $1.4 million, or 1.5%, to $96.0 million, as compared to $94.6 million in the prior year. This includes the increase of $6.8 million from the recent acquisitions and $0.9 million related to the favorable impact of exchange rates.

- Net sales of the Residential Kitchen Equipment Group decreased by $58.0 million or 8.8% to $600.7 million in fiscal 2017, as compared to $658.7 million in fiscal 2016. Excluding the impact of foreign currency, net sales decreased $47.7 million, or 7.2% at the Residential Kitchen Equipment Group. Domestically, the company realized a sales decrease of $23.8 million, or 6.5%, to $344.2 million, as compared to $368.0 million in the prior year. Domestic sales declined primarily due to lower sales of Viking products, reflecting the residual impact of a product recall. International sales decreased $34.2 million, or 11.8% to $256.5 million, as compared to $290.7 million in the prior year, including a reduction of $10.3 million related to the unfavorable impact of exchange rates. Excluding foreign exchange, the net sales decrease in international sales was $23.9 million, or 8.2%. The sales decrease reflects the impact of product rationalization at the AGA Group in conjunction with acquisition integration initiatives and restructuring actions impacting sales related to non-core businesses within that group.

GROSS PROFIT. Gross profit increased by $11.5 million to $912.7 million in fiscal 2017 from $901.2 million in fiscal 2016. The increase in the gross profit reflects the impact of increased sales from acquisitions, offset by the impact of foreign exchange rates, which reduced gross profit by $4.5 million. The gross margin rate decreased from 39.7% in 2016 to 39.1% in 2017.

- Gross profit at the Commercial Foodservice Equipment Group increased by $19.0 million, or 3.6%, to $551.9 million in fiscal 2017 as compared to $532.9 million in fiscal 2016. Gross profit from the acquisitions of Follett, Sveba Dahlen, QualServ, L2F, and Globe accounted for approximately $38.0 million of the increase in gross profit during fiscal 2017. Excluding the recent acquisitions, the gross profit decreased by approximately $19.0 million due to lower sales volume and product mix in comparison to the prior year. The impact of foreign exchange rates reduced gross profit by approximately $0.6 million. The gross profit margin rate decreased to 39.9% as compared to 42.1% in the prior year, primarily due to lower margins at recent acquisitions.

- Gross profit at the Food Processing Equipment Group increased by $5.4 million, or 3.9%, to $143.1 million in fiscal 2017 as compared to $137.7 million in fiscal 2016. Gross profit from the acquisitions of Burford, CVP Systems, and Scanico accounted for approximately $8.9 million of the increase in gross profit during fiscal 2017. Excluding the recent acquisitions, the gross profit decreased by approximately $3.5 million based on lower sales volumes. The impact of foreign exchange rates increased gross profit by approximately $0.1 million. The gross profit margin rate increased to 40.6% in fiscal 2017 as compared to 40.2% in fiscal 2016. The increase in the gross margin rate reflects the favorable impact of ongoing cost efficiency initiatives.

- Gross profit at the Residential Kitchen Equipment Group decreased by $9.8 million, or 4.2%, to $222.9 million in fiscal 2017 as compared to $232.7 million in fiscal 2016. The impact of foreign exchange rates reduced gross profit by approximately $4.0 million. The gross margin rate increased to 37.1% in fiscal 2017 as compared to 35.3% in fiscal 2016, due to the impact of improved margins at the AGA Group, U-Line and Lynx as a result of cost reduction and acquisition integration initiatives.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Combined selling, general, and administrative expenses decreased by $7.9 million to $436.5 million in fiscal 2017 from $444.4 million in 2016. As a percentage of net sales, selling, general and administrative expenses amounted to 18.7% in fiscal 2017 and 19.6% in fiscal 2016.

Selling, general and administrative expenses reflect increased costs of $36.3 million associated with the Follett, Burford, CVP Systems, Sveba Dahlen, QualServ, L2F, Globe and Scanico acquisitions, including $8.3 million of non-cash intangible amortization expense. The unfavorable impact of foreign exchange rates increased selling, general and administrative expenses by approximately $1.0 million. Selling, general and administrative expenses decreased $3.9 million related to net periodic pension benefit and $3.1 million related to trade advertising, offset by an increase of $6.9 million related to strategic expenses associated with acquisition activities. Additionally, selling, general and administrative expenses decreased $19.8 million related to lower salaries and bonuses due to reorganization activities and $21.7 million related to lower non-cash share based compensation.

RESTRUCTURING EXPENSES. Restructuring expenses increased $9.5 million to $20.0 million from $10.5 million in the prior year period. Restructuring expenses during fiscal 2017 included cost reduction initiatives primarily related to headcount reductions at the Commercial Foodservice Equipment Group, Food Processing Equipment Group and Residential Kitchen Equipment Group. Restructuring expenses during fiscal 2016 were primarily associated with acquisition integration initiatives at AGA.

GAIN ON SALE OF PLANT. Gain on sale of plant in the amount of $12.0 million was related to the sale of a manufacturing facility, proceeds of which were used to purchase a larger manufacturing facility to gain efficiencies in workflow and allow for future manufacturing consolidation efforts.

IMPAIRMENT OF INTANGIBLE ASSET. The impairment of intangible asset in the amount of $58.0 million was recognized related to the Viking tradename within the company's annual impairment assessment of goodwill and indefinite-lived assets. The impairment resulted from weaker than expected revenue performance in the current year and a corresponding reduction in the future revenue expectations. The decline in revenues was attributable, in part, to the product recall announced in 2015 related to products manufactured prior to the acquisition of Viking.

INCOME FROM OPERATIONS. Income from operations decreased $35.9 million to $410.3 million in fiscal 2017 from $446.2 million in fiscal 2016. The decrease in operating income resulted from the increased restructuring expenses and the impairment of intangible assets, offset by the increase in net sales, gross profit and the gain on sale of plant. Operating income as a percentage of net sales amounted to 17.5% in 2017 as compared to 19.6% in 2016. Excluding the impact of restructuring expenses, gain on sale of plant and impairment of intangible assets operating income increased $19.6 million to $476.3 million in fiscal 2017 from $456.7 million in fiscal 2016. Operating income as a percentage of net sales, excluding those items, amounted to 20.4% in 2017 in comparison to 20.1% in 2016, reflecting an increase in the net periodic pension benefit and ongoing cost reduction initiatives.

Income from operations in 2017 included $74.5 million of non-cash expenses, including $29.7 million of depreciation expense, $38.6 million of intangible amortization related to acquisitions and $6.2 million of stock based compensation. This compares to $84.0 million of non-cash expenses in the prior year, including $26.2 million of depreciation expense, $29.9 million of intangible amortization related to acquisitions, and $27.9 million of stock based compensation costs.

NON-OPERATING EXPENSES. Non-operating expenses increased $1.9 million to $26.8 million in fiscal 2017 from $24.9 million in fiscal 2016. Net interest expense and deferred financing increased $2.1 million from $23.9 million in fiscal 2016 to $26.0 million in fiscal 2017 reflecting increased interest due to higher debt balances related to the funding of acquisitions. Other expense was $0.8 million in fiscal 2017 as compared to $1.0 million in fiscal 2016 and consists mainly of net foreign exchange gains and losses.

INCOME TAXES. A tax provision of $85.4 million, at an effective rate of 22.3%, was recorded for fiscal 2017 as compared to $137.1 million at an effective rate of 32.5%, in fiscal 2016. The effective tax rate for 2017 is lower than the statutory tax rate of 35% primarily due to the impact of complying with the Tax Cuts and Job Act of 2017. The Tax Cuts and Job Act of 2017 includes a tax benefit for revaluing the U.S. deferred taxes based on the 2018 enacted corporate income tax rate of 21%, partially offset by additional taxes related to the transition tax for the move from a worldwide tax system to a territorial tax system. Additionally, the effective tax rate was impacted by excess stock compensation tax benefits from the adoption of Accounting Standards Update ("ASU") 2016-09, "Compensation - Stock Compensation (Topic 718): Improvements to Employee Share Based Accounting." The effective tax rates for both 2017 and 2016 similarly benefited from the U.S. domestic manufacturers deduction, permanent tax deductions and favorable foreign rate differentials.

Financial Condition and Liquidity

Total cash and cash equivalents decreased by $18.0 million to $71.7 million at December 29, 2018 from $89.7 million at December 30, 2017. Net borrowings increased to $1,892.1 million at December 29, 2018, from $1,028.9 million at December 30, 2017.

OPERATING ACTIVITIES. Net cash provided by operating activities before changes in assets and liabilities amounted to $443.8 million as compared to $408.7 million in the prior year. Adjustments to reconcile 2018 net earnings to operating cash flows before changes in assets and liabilities included $35.8 million of depreciation expense and $61.4 million of amortization expense, $2.5 million of non-cash stock compensation expense, $0.8 million of impairment of equipment, $5.6 million of non-cash restructuring and $20.5 million of deferred tax expense.

Net cash provided by operating activities after changes in assets and liabilities amounted to $368.9 million as compared to $304.5 million in the prior year.

During fiscal 2018, net cash used to fund changes in assets and liabilities amounted to $74.9 million. The changes included an increase in accounts receivables of $25.3 million due to increased sales volumes at the Commercial Foodservice Equipment Group and domestic premium brands within the Residential Kitchen Equipment Group. Inventory increased $28.4 million and accounts payables increased by $13.6 million due to several factors including increased sales volumes at the Commercial Foodservice Equipment Group and domestic premium brands within the Residential Kitchen Equipment Group, normal business seasonality affecting working capital and the timing of large orders for the Food Processing Equipment Group. Prepaid expenses and other assets decreased $18.1 million primarily due to a decrease in prepaid taxes. Accrued expenses and other non-current liabilities decreased by $52.9 million primarily related to payment of 2017 annual rebate programs at the Commercial Foodservice Equipment Group and Residential Kitchen Group, payment of incentive obligations, customer deposits based on timing of projects related to the Food Processing Equipment Group and payments related to 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 2018, net cash used for investing activities amounted to $1,239.4 million. This included $1,197.7 million of the 2018 acquisitions of Hinds-Bock, JoeTap, Ve.Ma.C, Firex, Josper, Taylor, M-TEK and Crown, $5.4 million related to the purchase of tradename and $36.0 million primarily associated with additions and upgrades of production equipment.

FINANCING ACTIVITIES. Net cash flows provided by financing activities amounted to $856.1 million in 2018. The company's borrowing activities included $864.8 million of net proceeds under its $3.0 billion Credit Facility and repaid $7.1 million under foreign borrowing facilities.
At December 29, 2018, 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	$ 3,000	$3,207	$78,660	$ 23,118	$107,985
1-3 years	1,056	1,888,461	124,964	35,673	2,050,154
4-5 years	—	353	8	21,158	21,519
After 5 years	—	84	1	19,881	19,966
	$ 4,056	$1,892,105	$203,633	$ 99,830	$2,199,624

The company has obligations to make $4.1 million of estimated contingent purchase price payments to the sellers of Josper and JoeTap that were deferred in conjunction with the acquisition.

As of December 29, 2018, the company had $1,887.8 million outstanding under its Credit Facility. The average interest rate on this debt amounted to 4.08% at December 29, 2018. This facility matures on July 28, 2021. As of December 29, 2018, the company also has $4.2 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 29, 2018 rates. Also reflected in the table above is $2.2 million of payments to be received related to the company’s interest rate swap agreements in 2019.

As indicated in Note 11 to the consolidated financial statements, the company’s projected benefit obligation under its defined benefit plans exceeded the plans’ assets by $253.1 million at the end of 2018 as compared to $334.5 million at the end of 2017. The unfunded benefit obligations were comprised of a $16.9 million underfunding of the company's U.S. Plans and $236.2 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 $0.9 million and $1.5 million in 2018 and 2017, 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 $0.6 million in 2019. The company expects to contribute $6.2 million to the Non-U.S. Plans in 2019.

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.

Off-Balance Sheet Arrangements

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

Related Party Transactions

From December 31, 2017 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

On December 31, 2017, the company adopted the new accounting standard ASU No. 2014-09, Revenue from Contracts with Customers (ASC 606) using the modified retrospective method to contracts that were not completed as of December 30, 2017. Revenue is recognized when the control of the promised goods or services are transferred to our customers, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and represents the unit of account in ASC 606. A contract’s transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The company’s contracts can have multiple performance obligations or just a single performance obligation. For contracts with multiple performance obligations, the contract’s transaction price is allocated to each performance obligation using the company’s best estimate of the standalone selling price of each distinct good or service in the contract.

Within the Commercial Foodservice Equipment and Residential Foodservice Equipment Groups, the estimated standalone selling price of equipment is based on observable prices. Within the Food Processing Equipment Group, the company estimates the standalone selling price based on expected cost to manufacture the good or complete the service plus an appropriate profit margin.

Control may pass to the customer over time or at a point in time. In general, the Commercial Foodservice Equipment and Residential Foodservice Equipment Groups recognize revenue at the point in time control transfers to their customers based on contractual shipping terms. Revenue from equipment sold under our long-term contracts within the Food Processing Equipment group is recognized over time as the equipment is manufactured and assembled. Installation services provided in connection with the delivery of the equipment are also generally recognized as those services are rendered. Over time transfer of control is measured using an appropriate input measure (e.g., costs incurred or direct labor hours incurred in relation to total estimate). These measures include forecasts based on the best information available and therefore reflect the company's judgment to faithfully depict the transfer of the goods.

Inventories

Inventories are stated at the lower of cost or net realizable value 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 Indefinite-Life 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 on the first day of the fourth quarter, or more frequently if triggering events occur, the company performs an impairment assessment for goodwill and indefinite-lived intangible assets. The company considers qualitative factors to assess if it is more likely than not that the fair value of goodwill and indefinite-lived intangible assets is below the carrying value.

In conducting a qualitative assessment, the company analyzes a variety of events or factors that may influence the fair value of the reporting unit including, but not limited to: the results of prior quantitative assessments performed; changes in the carrying amount of the reporting unit; actual and projected revenue and operating margin; relevant market data for both the company and its peer companies; industry outlooks; macroeconomic conditions; liquidity; changes in key personnel; and the company's competitive position. Significant judgment is used to evaluate the totality of these events and factors to make the determination of whether it is more likely than not that the fair value of the reporting unit or indefinite-life intangible is less than its carrying value.

Goodwill Valuations
The reporting units at which we test goodwill for impairment are our operating segments. These consist of the Commercial Foodservice Equipment Group, the Food Processing Equipment Group and the Residential Kitchen Equipment Group. 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 performing a quantitative assessment, if required, we estimate each reporting unit's fair value under an income approach using a discounted cash flow model. The income approach uses each reporting unit's projection of estimated operating results and cash flows that are discounted using a market participant discount rate based on a weighted-average cost of capital. The financial projections reflect management's best estimate of economic and market conditions over the projected period including forecasted revenue growth, operating margins, tax rate, capital expenditures, depreciation, amortization and changes in working capital requirements. Other assumptions include discount rate and terminal growth rate. The estimated fair value of each reporting unit is compared to their respective carrying values. Additionally, we validate our estimates of fair value under the income approach by comparing the fair value estimate using a market approach. A market approach estimates fair value by applying cash flow multiples to the reporting unit's operating performance. The multiples are derived from comparable publicly traded companies with similar operating and investment characteristics of the reporting units. We consider the implied control premium and conclude whether it is reasonable based on other recent market transactions.

We performed a qualitative assessment as of September 30, 2018 over all three reporting units and determined it is more likely than not that the fair value of our reporting units are greater than the carrying amounts.

In estimating the fair value of our reporting units, 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. If actual results are not consistent with management's estimate and assumptions, a material impairment could have an adverse effect on the company's financial condition and results of operations.

Indefinite-Life Intangible Valuations
In performing a quantitative assessment of indefinite-life intangible assets other than goodwill, primarily trademarks and trade names, we estimate the fair value of these intangible assets using the relief-from-royalty method which requires assumptions related to projected revenues from our long-range plans; assumed royalty rates that could be payable if we did not own the trademark; and a discount rate using a market based weighted-average cost of capital. If the estimated fair value of the indefinite-life intangible asset is less than its carrying value, we would recognize an

impairment loss.

Based on the qualitative assessment as of September 30, 2018, the company identified several trademarks and trade names with indicators of potential risk for impairment and performed quantitative assessment. In performing the quantitative analysis on these trademark assets, significant assumptions used in our relief-from-royalty model included revenue growth rates, assumed royalty rates and the discount rate, which are discussed further below.

- Revenue growth rates relate to projected revenues from our long-range plans and vary from brand to brand. Adverse changes in the operating environment or our inability to grow revenues at the forecasted rates may result in a material impairment charge.

• In determining royalty rates for the valuation of our trademarks, we considered factors that affect the assumed royalty rates that would hypothetically be paid for the use of the trademarks. The most significant factors in determining the assumed royalty rates include the overall role and importance of the trademarks in the particular industry, the profitability of the products utilizing the trademarks, and the position of the trademarked products in the given market segment.

• In developing discount rates for the valuation of our trademarks, we used the market based weighted average cost of capital, adjusted for higher relative level of risks associated with doing business in other countries, as applicable, as well as the higher relative levels of risks associated with intangible assets.

As a result of quantitative testing the company determined there were no impairments of trademarks. The gross value of the trademarks tested was approximately $60.0 million. The fair values of the trademarks tested exceeded their carrying values by less than 20%. The company believes the assumptions utilized within the quantitative analysis are reasonable.

We performed a qualitative assessment as of September 29, 2018 over all the other trademarks and trade names and determined it is more likely than not that the fair value of our other indefinite-life intangible assets are greater than the carrying amounts.

If actual results are not consistent with management's estimate and assumptions, a material impairment charge of our trademarks and trade names could occur, which could have an adverse effect on the company's financial condition and results of operations.

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

See Note 3(r) to the Consolidated Financial Statements for further information on the new accounting pronouncements.

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
2019	$3,207
2020	349
2021	1,888,112
2022	269
2022 and thereafter	168
	$1,892,105

On July 28, 2016, the company entered into an amended and restated five-year $2.5 billion multi-currency senior secured revolving credit agreement (the "Credit Facility"). On December 18, 2018, the company entered into an amendment to the Credit Facility, increasing the revolving commitments under the Credit Facility by $500.0 million to a total of $3.0 billion. As of December 29, 2018, the company had $1,887.8 million of borrowings outstanding under the Credit Facility, including $1,814.0 million of borrowings in U.S. Dollars and $73.8 million of borrowings denominated in Euros. The company also has $12.1 million in outstanding letters of credit as of December 29, 2018, which reduces the borrowing availability under the Credit Facility. Remaining borrowing availability under the Credit Facility was $1.1 billion at December 29, 2018.

At December 29, 2018, borrowings under the Credit Facility accrued interest at a rate of 1.63% above LIBOR per annum or 0.63% 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 4.08% for 2018. The interest rates on borrowings under the Credit Facility may be adjusted quarterly based on the company’s Funded Debt Less Unrestricted Cash to Pro Forma EBITDA (the "Leverage Ratio") on a rolling four-quarter basis. Additionally, a commitment fee based upon the Leverage Ratio is charged on the unused portion of the commitments under the Credit Facility. This variable commitment fee was equal to 0.25% per annum as of December 29, 2018.

In addition, the company has other international credit facilities to fund working capital needs outside the United States and the United Kingdom. At December 29, 2018, these foreign credit facilities amounted to $4.2 million in U.S. Dollars with a weighted average per annum interest rate of approximately 5.76%.

The company uses floating-to-fixed interest rate swap agreements to hedge variable interest rate risk associated with the Credit Facility. At December 29, 2018, the company had outstanding floating-to-fixed interest rate swaps totaling $999.0 million notional amount carrying an average interest rate of 2.17% that mature in more than 12 months but less than 72 months.

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

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The terms of the Credit Facility limit the ability of the company and its subsidiaries to, with certain exceptions: incur indebtedness; grant liens; engage in certain mergers, consolidations, acquisitions and dispositions; make restricted payments; enter into certain transactions with affiliates; and requires, among other things, the company to satisfy certain financial covenants: (i) a minimum Interest Coverage Ratio (as defined in the Credit Facility) of 3.00 to 1.00 and (ii) a maximum Leverage Ratio of Funded Debt less Unrestricted Cash to Pro Forma EBITDA (each as defined in the Credit Facility) of 3.50 to 1.00, which may be adjusted to 4.00 to 1.00 for a four consecutive fiscal quarter period in connection with certain qualified acquisitions, subject to the terms and conditions contained in the Credit Facility. The Credit Facility is secured by substantially all of the assets of Middleby Marshall, the company and the company's domestic subsidiaries and is unconditionally guaranteed by, subject to certain exceptions, the company and certain of the company's direct and indirect material foreign and domestic subsidiaries. The Credit Facility contains certain customary events of default, including, but not limited to, the failure to make required payments; bankruptcy and other insolvency events; the failure to perform certain covenants; the material breach of a representation or warranty; non-payment of certain other indebtedness; the entry of undischarged judgments against the company or any subsidiary for the payment of material uninsured amounts; the invalidity of the company guarantee or any subsidiary guaranty; and a change of control of the company. At December 29, 2018, 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 29, 2018, the fair value of these instruments was an asset of $9.4 million. The change in fair value of these swap agreements in fiscal 2018 was a loss of $0.8 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

The following consolidated financial statement schedule is included in response to Item 15

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 Shareholders and the Board of Directors of The Middleby Corporation

Opinion on Internal Control over Financial Reporting
We have audited The Middleby Corporation's internal control over financial reporting as of December 29, 2018, 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). In our opinion, The Middleby Corporation (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 29, 2018, based on the COSO criteria.

As indicated in the 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 Hinds-Bock, Ve.Ma.C, Firex, Josper, Taylor, M-TEK and Crown which are included in the 2018 consolidated financial statements of the Company and constituted 28.0% and 0.3% of total and net assets, respectively, as of December 29, 2018 and 8.1% and 4.5% of revenues and net income, respectively, for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of Hinds-Bock, Ve.Ma.C, Firex, Josper, Taylor, M-TEK and Crown.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 29, 2018 and December 30, 2017, the related consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 29, 2018, and the related notes and financial statement schedule and our report dated February 27, 2019 expressed an unqualified opinion thereon.

Basis for Opinion
The Company’s 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 Management’s Report on Internal Controls over Financial Reporting. Our responsibility is to express an opinion on the Company’s internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. 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.

Definition and Limitations of Internal Control Over Financial Reporting
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.

/s/ Ernst & Young LLP

Chicago, Illinois
February 27, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders and the Board of Directors of The Middleby Corporation

Opinion on the Financial Statements
We have audited the accompanying consolidated balance sheets of The Middleby Corporation (the Company) as of December 29, 2018 and December 30, 2017, the related consolidated statements of earnings, comprehensive income, changes in shareholders' equity and cash flows for each of the three years in the period ended December 29, 2018, and the related notes and financial statement schedule listed in the Index at Item 8, (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 29, 2018 and December 30, 2017, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 29, 2018, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 29, 2018, 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 February 27, 2019 expressed an unqualified opinion thereon.

Basis for Opinion
These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP
We have served as the Company's auditor since 2012.

Chicago, Illinois
February 27, 2019

THE MIDDLEBY CORPORATION

CONSOLIDATED BALANCE SHEETS
DECEMBER 29, 2018 AND DECEMBER 30, 2017
(amounts in thousands, except share data)

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$71,701	$89,654
Accounts receivable, net of reserve for doubtful accounts of $13,608 and $13,182	398,660	328,421
Inventories, net	521,810	424,639
Prepaid expenses and other	50,940	55,427
Prepaid taxes	18,483	33,748
Total current assets	1,061,594	931,889
Property, plant and equipment, net of accumulated depreciation of $167,737 and $142,278	314,569	281,915
Goodwill	1,743,175	1,264,810
Other intangibles, net of amortization of $268,414 and $207,334	1,361,024	780,426
Long-term deferred tax assets	32,188	44,565
Other assets	37,231	36,108
Total assets	$4,549,781	$3,339,713
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Current maturities of long-term debt	$3,207	$5,149
Accounts payable	188,299	146,333
Accrued expenses	367,446	322,171
Total current liabilities	558,952	473,653
Long-term debt	1,888,898	1,023,732
Long-term deferred tax liability	113,896	87,815
Accrued pension benefits	253,119	334,511
Other non-current liabilities	69,713	58,854
Stockholders' equity:		
Preferred stock, $0.01 par value; nonvoting; 2,000,000 shares authorized; none issued	—	—
Common stock, $0.01 par value; 62,592,707 and 62,619,865 shares issued in 2018 and 2017, respectively	145	145
Paid-in capital	377,419	374,922
Treasury stock, at cost; 6,889,241 shares in 2018 and 2017	(445,118)	(445,118)
Retained earnings	2,009,233	1,697,618
Accumulated other comprehensive loss	(276,476)	(266,419)
Total stockholders' equity	1,665,203	1,361,148
Total liabilities and stockholders' equity	$4,549,781	$3,339,713

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

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THE MIDDLEBY CORPORATION

CONSOLIDATED STATEMENTS OF EARNINGS
FOR THE FISCAL YEARS ENDED DECEMBER 29, 2018, DECEMBER 30, 2017
AND DECEMBER 31, 2016
(amounts in thousands, except per share data)

	2018	2017	2016
Net sales	$2,722,931	$2,335,542	$2,267,852
Cost of sales	1,718,791	1,422,801	1,366,672
Gross profit	1,004,140	912,741	901,180
Selling, general, and administrative expenses	538,842	468,219	471,638
Restructuring expenses	19,332	19,951	10,524
Gain on sale of plant	—	(12,042)	—
Impairment of intangible asset	—	58,000	—
Income from operations	445,966	378,613	419,018
Interest expense and deferred financing amortization, net	58,742	25,983	23,880
Net periodic pension benefit (other than service costs)	(38,114)	(31,728)	(27,207)
Other expense, net	1,825	829	1,040
Earnings before income taxes	423,513	383,529	421,305
Provision for income taxes	106,361	85,401	137,089
Net earnings	$317,152	$298,128	$284,216
Net earnings per share:			
Basic	$5.71	$5.26	$4.98
Diluted	$5.70	$5.26	$4.98
Weighted average number of shares			
Basic	55,576	56,715	57,030
Dilutive common stock equivalents	28	4	55
Diluted	55,604	56,719	57,085

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

THE MIDDLEBY CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
FOR THE FISCAL YEARS ENDED DECEMBER 29, 2018, DECEMBER 30, 2017
AND DECEMBER 31, 2016
(amounts in thousands)

	2018	2017	2016
Net earnings	$317,152	$298,128	$284,216
Other comprehensive income:			
Foreign currency translation adjustments	(43,050)	46,690	(63,569)
Pension liability adjustment, net of tax	32,125	(29,669)	(149,815)
Unrealized gain on interest rate swaps, net of tax	868	883	5,473
Comprehensive income	$307,095	$316,032	$76,305

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

THE MIDDLEBY CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY
FOR THE FISCAL YEARS ENDED DECEMBER 29, 2018, DECEMBER 30, 2017
AND DECEMBER 31, 2016
(amounts in thousands)

	Common Stock	Paid-in Capital	Treasury Stock	Retained Earnings	Accumulated Other Comprehensive Income/(loss)	Total Stockholders' Equity
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
Net earnings	—	—	—	298,128	—	298,128
Currency translation adjustments	—	—	—	—	46,690	46,690
Change in unrecognized pension benefit costs, net of tax of $(5,588)	—	—	—	—	(29,669)	(29,669)
Unrealized gain on interest rate swap, net of tax of $588	—	—	—	—	883	883
Stock compensation	—	6,237	—	—	—	6,237
Stock issuance	1	13,398	—	—	—	13,399
Purchase of treasury stock	—	—	(239,838)	—	—	(239,838)
Balance, December 30, 2017	$ 145	$374,922	$(445,118)	$1,697,618	$ (266,419)	$ 1,361,148
Net earnings	—	—	—	317,152	—	317,152
Adoption of ASU 2018-02 (1)	—	—	—	(1,132)	1,132	—
Adoption of ASU 2014-09 (2)	—	—	—	(4,405)	—	(4,405)
Currency translation adjustments	—	—	—	—	(43,050)	(43,050)
Change in unrecognized pension benefit costs, net of tax of $6,386	—	—	—	—	32,612	32,612
Unrealized gain on interest rate swap, net of tax of $(81)	—	—	—	—	(751)	(751)
Stock compensation	—	2,497	—	—	—	2,497
Balance, December 29, 2018	$ 145	$377,419	$(445,118)	$2,009,233	$ (276,476)	$ 1,665,203

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

from accumulated other comprehensive income to retained earnings.
(2) As of December 31, 2017, the company adopted ASU No. 2014-09, Revenue from Contracts with Customers (ASC 606) using the modified retrospective method to contracts that were not completed as of December 30, 2017. The adoption of this guidance resulted in the recognition of $(4.4) million as an adjustment to the opening balance of retained earnings.

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

THE MIDDLEBY CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE FISCAL YEARS ENDED DECEMBER 29, 2018, DECEMBER 30, 2017
AND DECEMBER 31, 2016
(amounts in thousands)

	2018	2017	2016
Cash flows from operating activities—			
Net earnings	$317,152	$298,128	$284,216
Adjustments to reconcile net earnings to net cash provided by operating activities			
Depreciation and amortization	97,238	69,774	58,234
Non-cash share-based compensation	2,497	6,237	27,905
Deferred income taxes	20,489	(14,492)	21,363
Gain on sale of plant	—	(12,042)	—
Impairment of equipment	783	3,114	—
Impairment of intangible asset	—	58,000	—
Non-cash restructuring	5,637	—	—
Changes in assets and liabilities, net of acquisitions			
Accounts receivable, net	(25,347)	26,180	(33,908)
Inventories, net	(28,378)	(9,744)	(22,246)
Prepaid expenses and other assets	18,145	(34,122)	(11,550)
Accounts payable	13,611	(21,631)	(7,730)
Accrued expenses and other liabilities	(52,913)	(64,947)	(22,174)
Net cash provided by operating activities	368,914	304,455	294,110
Cash flows from investing activities—			
Additions to property and equipment	(36,040)	(54,493)	(24,817)
Proceeds on sale of plant	—	14,278	—
Purchase of tradename	(5,399)	—	—
Acquisitions, net of cash acquired	(1,197,984)	(305,251)	(210,921)
Net cash used in investing activities	(1,239,423)	(345,466)	(235,738)
Cash flows from financing activities—			
Proceeds under Credit Facility	1,611,110	758,883	432,768
Repayments under Credit Facility	(746,281)	(462,112)	(435,250)
Net repayments under foreign bank loan	(7,088)	(1,062)	(26,821)
Net repayments under other debt arrangement	(3)	(35)	(35)
Payments of deferred purchase price	(1,234)	—	—
Repurchase of treasury stock	—	(239,838)	(4,418)
Debt issuance costs	(375)	—	(6,310)
Excess tax benefit related to share-based compensation	—	—	(1,304)
Net cash provided by (used in) financing activities	856,129	55,836	(41,370)
Effect of exchange rates on cash and cash equivalents	(3,573)	6,344	(4,045)
Changes in cash and cash equivalents—			
Net (decrease) increase in cash and cash equivalents	(17,953)	21,169	12,957
Cash and cash equivalents at beginning of year	89,654	68,485	55,528
Cash and cash equivalents at end of year	$71,701	$89,654	$68,485

Non-cash investing and financing activities:			
Stock issuance related to acquisitions	$—	$13,399	$—

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

THE MIDDLEBY CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE FISCAL YEARS ENDED DECEMBER 29, 2018, DECEMBER 30, 2017
AND DECEMBER 31, 2016

(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 thirty-four U.S. and twenty-six 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 foodservice equipment, which enable it to serve virtually any cooking, warming, refrigeration, freezing and beverage application within a commercial kitchen or foodservice operation. This 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, food warming equipment, catering equipment, heated cabinets, charbroilers, ventless cooking systems, kitchen ventilation, induction cooking equipment, countertop cooking equipment, toasters, griddles, charcoal grills, professional mixers, stainless steel fabrication, custom millwork, professional refrigerators, blast chillers, coldrooms, ice machines, freezers, and soft serve, ice cream, coffee, and beverage dispensing equipment.

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 belt 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, reduction and emulsion systems, mixers, blenders, battering equipment, breading equipment, seeding equipment, water cutting systems, food presses, food suspension equipment, filling and depositing solutions, and forming equipment, as well as a variety of automated loading and unloading systems, food safety, food handling, freezing, defrosting 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, 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 a3.2re reflected in the consolidated financial statements of the company from the dates of acquisition.

The following represents the company's more significant acquisitions in 2018 and 2017. The company also made smaller acquisitions not listed below which are individually and collectively immaterial.

Burford

On May 1, 2017, the company completed its acquisition of all of the capital stock of Burford Corp. ("Burford"). Burford is a leading manufacturer of industrial baking equipment for the food processing industry located in Maysville, Oklahoma, for a purchase price of approximately $14.8 million, net of cash acquired. During the fourth quarter of 2017, the company finalized the working capital provision provided for by the purchase agreement resulting in a refund from the seller of $0.3 million.

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

	(as initially reported) May 1, 2017	Measurement Period Adjustments	(as adjusted) May 1, 2017
Cash	$2,514	$ —	$2,514
Current assets	6,424	104	6,528
Property, plant and equipment	656	(13)	643
Goodwill	7,289	997	8,286
Other intangibles	4,900	1,840	6,740
Current liabilities	(2,254)	(665)	(2,919)
Long term deferred tax liability	(1,840)	224	(1,616)
Other non-current liabilities	—	(2,836)	(2,836)
Net assets acquired and liabilities assumed	$17,689	$ (349)	$17,340

The long term deferred tax liability amounted to $1.6 million. The net deferred tax liability is comprised of $2.7 million of deferred tax liability related to the difference between the book and tax basis of identifiable intangible assets, net of $0.4 million related to federal and state net operating loss carryforwards and $0.7 million of deferred tax asset arising from the difference between the book and tax basis of identifiable tangible asset and liability accounts. The goodwill and $2.7 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350 "Intangibles - Goodwill and Other". Other intangibles also include $3.1 million allocated to customer relationships, $0.7 million allocated to developed technology and $0.3 million allocated to backlog, which are to be amortized over periods of 6 years, 7 years and 3 months, respectively. Goodwill and other intangibles of Burford are allocated to the Food Processing Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

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CVP Systems

On June 30, 2017, the company completed its acquisition of all of the capital stock of CVP Systems, Inc. ("CVP Systems"), a leading manufacturer of high-speed packaging systems for the meat processing industry located in Downers Grove, Illinois, for a purchase price of approximately $29.8 million, net of cash acquired. The purchase price included $17.5 million in cash and 106,254 shares of Middleby common stock valued at $12.3 million. During the second quarter of 2018, the company finalized the working capital provision provided for by the purchase agreement resulting in a refund from the seller of $0.5 million.

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

	(as initially reported) June 30, 2017	Measurement Period Adjustments	(as adjusted) June 30, 2017
Cash	$621	$ —	$621
Current assets	5,973	(1,435)	4,538
Property, plant and equipment	238	(91)	147
Goodwill	20,297	(695)	19,602
Other intangibles	8,700	4,350	13,050
Current liabilities	(1,532)	(581)	(2,113)
Long term deferred tax liability	(3,168)	(443)	(3,611)
Other non-current liabilities	—	(1,833)	(1,833)
Net assets acquired and liabilities assumed	$31,129	$ (728)	$30,401

The long term deferred tax liability amounted to $3.6 million. The net liability is comprised of $5.0 million of deferred tax liability related to the difference between the book and tax basis of identifiable intangible assets, net of $0.6 million related to federal and state net operating loss carryforwards and $0.8 million of deferred tax assets arising from the difference between the book and tax basis of identifiable tangible asset and liability accounts.

The goodwill and $6.2 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also include $5.7 million allocated to customer relationships, $0.8 million allocated to developed technology and $0.3 million allocated to backlog, which are to be amortized over periods of 5 years, 7 years and 3 months, respectively. Goodwill and other intangibles of CVP Systems are allocated to the Food Processing Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

Sveba Dahlen

On June 30, 2017, the company completed its acquisition of all of the capital stock of Sveba Dahlen Group ("Sveba Dahlen"), a developer and manufacturer of ovens and baking equipment for the commercial foodservice and industrial baking industries headquartered in Fristad, Sweden, for a purchase price of $81.4 million, net of cash acquired.

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

	(as initially reported) June 30, 2017	Measurement Period Adjustments	(as adjusted) June 30, 2017
Cash	$4,569	$ —	$4,569
Current assets	22,686	(997)	21,689
Property, plant and equipment	9,128	(431)	8,697
Goodwill	33,785	4,330	38,115
Other intangibles	34,175	225	34,400
Other assets	1,170	(280)	890
Current portion of long-term debt	—	(14)	(14)
Current liabilities	(11,782)	(342)	(12,124)
Long term debt	—	(140)	(140)
Long term deferred tax liability	(7,751)	(626)	(8,377)
Other non-current liabilities	(42)	(1,725)	(1,767)
Net assets acquired and liabilities assumed	$85,938	$ —	$85,938

The long term deferred tax liability amounted to $8.4 million. The liability is comprised of $7.5 million of deferred tax liability related to the difference between the book and tax basis of identifiable intangible assets and $0.9 million of deferred tax liability related to the difference between the book and tax basis on identifiable tangible asset and liability accounts.

The goodwill and $21.1 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also include $12.8 million allocated to customer relationships and $0.5 million allocated to backlog, which are to be amortized over periods of 6 years and 3 months, respectively. Goodwill and other intangibles of Sveba Dahlen are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

QualServ

On August 31, 2017, the company completed its acquisition of substantially all of the assets of QualServ Solutions LLC ("QualServ"), a global commercial kitchen design, manufacturing, engineering, project management and equipment solutions provider located in Fort Smith, Arkansas, for a purchase price of $39.9 million, net of cash acquired. During the first quarter of 2018, the company finalized the working capital provision provided by the purchase agreement resulting in a refund from the seller of $0.3 million.

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

	(as initially reported) August 31, 2017	Measurement Period Adjustments	(as adjusted) August 31, 2017
Cash	$ 1,130	$ —	$ 1,130
Current assets	18,031	(64)	17,967
Property, plant and equipment	4,785	—	4,785
Goodwill	14,590	(1,399)	13,191
Other intangibles	9,600	1,340	10,940
Current liabilities	(6,810)	(130)	(6,940)
Net assets acquired and liabilities assumed	$ 41,326	(253)	$ 41,073

The goodwill and $1.8 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also include $9.1 million allocated to customer relationships, which is to be amortized over a period of 7 years. Goodwill and other intangibles of QualServ are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are expected to be deductible for tax purposes.

Globe

On October 17, 2017, the company completed its acquisition of all of the capital stock of Globe Food Equipment Company ("Globe"), a leading brand in slicers and mixers for the commercial foodservice industry located in Dayton, Ohio, for a purchase price of $105.0 million, net of cash acquired. During the first quarter of 2018, the company finalized the working capital provision provided by the purchase agreement resulting in an additional payment to the seller of $0.4 million.

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

	(as initially reported) October 17, 2017	Measurement Period Adjustments	(as adjusted) October 17, 2017
Cash	$3,420	$ —	$3,420
Current assets	17,197	(40)	17,157
Property, plant and equipment	1,120	—	1,120
Goodwill	67,176	(7,182)	59,994
Other intangibles	43,444	14,086	57,530
Current liabilities	(5,994)	(398)	(6,392)
Long term deferred tax liability	(16,456)	(5,832)	(22,288)
Other non-current liabilities	(1,907)	(193)	(2,100)
Net assets acquired and liabilities assumed	$108,000	$ 441	$108,441

The long term deferred tax liability amounted to $22.3 million. The net liability is comprised of $21.7 million of deferred tax liability related to the difference between the book and tax basis of identifiable intangible assets and $0.6 million of deferred tax liability related to the difference between the book and tax basis on identifiable tangible asset and liability accounts.

The goodwill and $28.8 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also include $28.7 million allocated to customer relationships, which is to be amortized over a period of 9 years. Goodwill and other intangibles of Globe are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

Scanico

On December 7, 2017, the company completed its acquisition of all of the capital stock of Scanico A/S ("Scanico"), a leading manufacturer of industrial cooling and freezing equipment for the food processing industry located in Aalborg, Denmark, for a purchase price of $34.5 million, net of cash acquired. During the first quarter of 2018, the company finalized the working capital provision provided by the purchase agreement resulting in an additional payment to the seller of $0.3 million. An additional payment is also due upon the achievement of certain financial targets.

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

	(as initially reported) December 7, 2017	Measurement Period Adjustments	(as adjusted) December 7, 2017
Cash	$ 6,766	$ —	$ 6,766
Current assets	3,428	(75)	3,353
Property, plant and equipment	447	(27)	420
Goodwill	30,072	(4,741)	25,331
Other intangibles	11,491	6,749	18,240
Current liabilities	(7,987)	(117)	(8,104)
Long term deferred tax liability	(3,305)	(1,455)	(4,760)
Consideration paid at closing	$ 40,912	$ 334	$ 41,246
Contingent consideration	751	—	751
Net assets acquired and liabilities assumed	$ 41,663	$ 334	$ 41,997

The long term deferred tax liability amounted to $4.8 million. The net liability is comprised of $4.0 million of deferred tax liability related to the difference between the book and tax basis of identifiable intangible assets and $0.8 million of deferred tax liability related to the difference between the book and tax basis on identifiable tangible asset and liability accounts.

The goodwill and $8.2 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also include $8.3 million allocated to customer relationships and $1.7 million allocated to backlog, which are to be amortized over periods of 6 years and 3 months, respectively. Goodwill and other intangibles of Scanico are allocated to the Food Processing Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

The Scanico purchase agreement includes an earnout provision providing for a contingent payment due to the sellers to the extent certain financial targets are exceeded. The earnout was paid during the fourth quarter based on Scanico sales and earnings performance for the twelve months ended June 30, 2018. The payment was substantially consistent with the contractual obligation recognized on the acquisition date of $0.8 million.

Hinds-Bock

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

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

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

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

Ve.Ma.C

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

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

	(as initially reported) April 3, 2018	Preliminary Measurement Period Adjustments	(as adjusted) April 3, 2018
Cash	$ 1,833	$ —	$ 1,833
Current assets	10,722	—	10,722
Property, plant and equipment	389	—	389
Goodwill	7,278	216	7,494
Other intangibles	2,584	—	2,584
Other assets	12	—	12
Current portion of long-term debt	(1,901)	—	(1,901)
Current liabilities	(8,076)	(216)	(8,292)
Long term deferred tax liability	(340)	—	(340)
Other non-current liabilities	(212)	—	(212)
Net assets acquired and liabilities assumed	$ 12,289	$ —	$ 12,289

The long term deferred tax liability amounted to $0.3 million. The net liability is comprised of $0.7 million of deferred tax liability related to the difference between the book and tax basis of identifiable intangible assets and $0.4 million of deferred tax asset related to the difference between the book and tax basis on identifiable tangible asset and liability accounts.

The goodwill and $1.0 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also include $0.6 million allocated to customer relationships, $0.3 million allocated to developed technology and $0.7 million allocated to backlog, which are to be amortized over periods of 5 years, 5 years and 3 months, respectively. Goodwill and other intangibles of Ve.Ma.C are allocated to the Food Processing Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

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.

Firex

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

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

	(as initially reported) April 27, 2018	Preliminary Measurement Period Adjustments	(as adjusted) April 27, 2018
Cash	$ 10,652	$ (37)	$ 10,615
Current assets	7,656	39	7,695
Property, plant and equipment	2,447	—	2,447
Goodwill	36,706	230	36,936
Other intangibles	19,806	—	19,806
Current portion of long-term debt	(1,210)	—	(1,210)
Current liabilities	(4,099)	(471)	(4,570)
Long term deferred tax liability	(4,995)	(12)	(5,007)
Long-term debt	(1,069)	—	(1,069)
Other non-current liabilities	(1,318)	—	(1,318)
Net assets acquired and liabilities assumed	$ 64,576	$ (251)	$ 64,325

The long term deferred tax liability amounted to $5.0 million. The net liability is comprised of $5.4 million of deferred tax liability related to the difference between the book and tax basis of identifiable intangible assets and $0.4 million of deferred tax asset related to the difference between the book and tax basis on identifiable tangible asset and liability accounts.

The goodwill and $9.5 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also include $9.7 million allocated to customer relationships, $0.2 million allocated to developed technology and $0.4 million allocated to backlog, which are to be amortized over periods of 7 years, 5 years and 3 months, respectively. Goodwill and other intangibles of Firex are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

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.

Josper

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

The 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 10, 2018	Preliminary Measurement Period Adjustments	(as adjusted) May 10, 2018
Cash	$3,308	$ —	$3,308
Current assets	6,579	14	6,593
Property, plant and equipment	4,739	—	4,739
Goodwill	27,140	220	27,360
Other intangibles	13,136	—	13,136
Other assets	2	—	2
Current portion of long-term debt	(217)	—	(217)
Current liabilities	(5,146)	(89)	(5,235)
Long-term debt	(1,608)	—	(1,608)
Long term deferred tax liability	(2,934)	(391)	(3,325)
Other non-current liabilities	(2,169)	—	(2,169)
Consideration paid at closing	$42,830	$ (246)	$42,584
Contingent consideration	3,454	—	3,454
Net assets acquired and liabilities assumed	$46,284	$ (246)	$46,038

The long term deferred tax liability amounted to $3.3 million. The net liability is comprised of $3.3 million of deferred tax liability related to the difference between the book and tax basis of identifiable intangible assets.

The goodwill and $6.3 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also include $6.4 million allocated to customer relationships, $0.1 million allocated to developed technology and $0.3 million allocated to backlog, which are to be amortized over periods of 5 years, 5 years and 3 months, respectively. Goodwill and other intangibles of Josper are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

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

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.

Taylor

On June 22, 2018, the company completed its acquisition of all of the capital stock of the Taylor Company ("Taylor"), a world leader in beverage solutions, soft serve and ice cream dispensing equipment, frozen drink machines, and automated double-sided grills, located in Rockton, Illinois, for a purchase price of approximately $1.0 billion. Additionally, the company incurred approximately $3.0 million of transaction expenses, which are reflected in the selling, general and administrative expenses in the consolidated statements of comprehensive income. During the fourth quarter of 2018, the company finalized the working capital provision provided for by the purchase agreement resulting in a refund from the seller of $11.5 million.

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

	(as initially reported) June 22, 2018	Preliminary Measurement Period Adjustments	(as adjusted) June 22, 2018
Cash	$2,551	$ 64	$2,615
Current assets	71,162	(1,359)	69,803
Property, plant and equipment	21,187	9	21,196
Goodwill	491,339	(102,657)	388,682
Other intangibles	484,210	99,500	583,710
Other assets	—	361	361
Long-term deferred tax asset	—	227	227
Current liabilities	(48,417)	(3,106)	(51,523)
Other non-current liabilities	(8,161)	(648)	(8,809)
Net assets acquired and liabilities assumed	$1,013,871	$ (7,609)	$1,006,262

The goodwill and $290.0 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also include $270.0 million allocated to customer relationships, $15.0 million allocated to developed technology, $1.7 million of existing developed oven technology and $7.0 million of backlogs, which are to be amortized over periods of 12.5 years, 7 years, 5 years and up to 3 years, respectively. Goodwill and other intangibles of Taylor are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. A significant portion of the assets are expected to be deductible for tax purposes.

The company estimated the fair value of the assets and liabilities of Taylor on a preliminary basis at the time of acquisition based on third-party appraisals used to assist in determining the fair market value for acquired tangible and intangible assets. Changes to these allocations will occur as additional information becomes available. The company is in the process of obtaining third-party valuations related to the fair value of intangible assets, in addition to determining and recording the tax effects of the transaction to include all assets/liabilities since those are recorded at fair value. 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. Acquired goodwill represents the premium paid over the fair value of assets acquired and liabilities assumed.

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M-TEK

On October 1, 2018, the company completed its acquisition of all of the capital stock of the M-TEK Corporation ("M-TEK"), a leading manufacturer of Modified Atmospheric Packaging (MAP) systems located in Elgin, Illinois, for a purchase price of approximately $20.0 million. The purchase price is subject to adjustment based upon a working capital provision provided by the purchase agreement. The company expects to finalize this in the first quarter of 2019.

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

	(as initially reported) October 1, 2018
Current assets	$2,745
Property, plant and equipment	2,497
Goodwill	11,610
Other intangibles	3,294
Current liabilities	(144)
Net assets acquired and liabilities assumed	$20,002

The goodwill is subject to the non-amortization provisions of ASC 350. Other intangibles also include $2.7 million allocated to customer relationships, $0.3 million allocated to developed technology, and $0.3 million allocated to backlog, which are to be amortized over periods of 5 years, 5 years and 3 months, respectively. Goodwill and other intangibles of M-TEK are allocated to the Food Processing Equipment Group for segment reporting purposes. A significant portion of the 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.

Crown

On December 3, 2018, the company completed its acquisition of all of the capital stock of the Crown Food Service Equipment, Ltd. ("Crown"), a leading design and manufacturer of steam cooking equipment for the commercial foodservice industry located in Toronto, Canada, for a purchase price of approximately $42.0 million, net of cash acquired. The purchase price is subject to adjustment based upon a working capital provision provided by the purchase agreement. The company expects to finalize this in the first quarter of 2019.

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

	(as initially reported) December 3, 2018
Cash	$ 495
Current assets	5,045
Property, plant and equipment	8,710
Goodwill	31,226
Current liabilities	(2,340)
Long-term deferred tax liability	(668)
Net assets acquired and liabilities assumed	$ 42,468

The long term deferred tax liability amounted to $0.7 million. The net deferred tax liability is comprised of $0.7 million which related to the difference between the book and tax basis on identifiable tangible asset and liability accounts.

The goodwill is subject to the non-amortization provisions of ASC 350. The goodwill of Crown is allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. This asset is not expected to be deductible for tax purposes.

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

Pro Forma Financial Information

In accordance with ASC 805 Business Combinations, the following unaudited pro forma results of operations for the twelve months ended December 29, 2018 and December 30, 2017, assumes the 2017 acquisitions of Burford, CVP Systems, Sveba Dahlen, QualServ, L2F, Globe and Scanico and the 2018 acquisitions of Hinds-Bock, Ve.Ma.C, Josper, Firex, Taylor, M-TEK and Crown were completed on January 1, 2017 (first day of fiscal year 2017). The following pro forma results include adjustments to reflect additional interest expense to fund the acquisitions, amortization of intangibles associated with the acquisitions, and the effects of adjustments made to the carrying value of certain assets (in thousands, except per share data):

	Twelve Months Ended	
	December 29, 2018	December 30, 2017
Net sales	$2,913,713	$ 2,911,834
Net earnings	322,997	269,031
Net earnings per share:		
Basic	$5.81	$ 4.74
Diluted	5.81	4.74

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

(3) 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 2018, 2017, and 2016 ended on December 29, 2018, December 30, 2017 and December 31, 2016, respectively, with each year including 52 weeks.

Certain prior year amounts have been reclassified to be consistent with current year presentation, including the non-operating components of pension benefit previously reported in Selling, general and administrative expenses to Net periodic pension benefit (other than service cost).

(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 $13.6 million and $13.2 million at December 29, 2018 and December 30, 2017, respectively. At December 29, 2018, 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 net realizable value. 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 29, 2018 and December 30, 2017 are as follows:

	2018	2017
	(dollars in thousands)	
Raw materials and parts	$245,976	$180,559
Work in process	51,164	38,917

Finished goods	224,670	205,163
	$521,810	$424,639

(e) Property, Plant and Equipment

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

	2018	2017
	(dollars in thousands)	
Land	$32,523	$28,996
Building and improvements	196,743	175,678
Furniture and fixtures	64,586	54,362
Machinery and equipment	188,454	165,157
	482,306	424,193
Less accumulated depreciation	(167,737)	(142,278)
	$314,569	$281,915

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 $35.8 million, $29.7 million and $26.2 million in fiscal 2018, 2017 and 2016, 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

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.

The company performs the annual impairment assessment for goodwill and indefinite-lived intangible assets as of first day of the fourth quarter and more frequently if indicators of impairment exist. The goodwill impairment test is performed at the reporting unit level. The company initially performs a qualitative analysis to determine if it is more likely than not that the goodwill balance or indefinite-life intangible asset is impaired. In conducting a qualitative assessment, the Company analyzes a variety of events or factors that may influence the fair value of the reporting unit or indefinite-life intangible, including, but not limited to: macroeconomic conditions, industry and market considerations, cost factors, overall financial performance, share price and other relevant factors.

If an indicator of impairment is determined from the qualitative analysis, then the company will perform a two-step quantitative analysis. First, the fair value of each reporting unit is compared to its carrying value. If the fair value of the reporting unit is less than its carrying value, the company performs a hypothetical purchase price allocation based on the reporting unit's fair value to determine the fair value of the reporting unit's goodwill. Any resulting difference will be a charge to Impairment of intangible assets in the Consolidated Statements of Earnings in the period in which the determination is made. Fair value is determined using a combination of present value techniques and market prices of comparable businesses.

The company completed its annual impairment test for goodwill as of September 30, 2018. The company performed a qualitative assessment to evaluate goodwill for all reporting units. Based on the qualitative assessment it was determined there was no impairment of goodwill. The company has not recognized any goodwill impairments and therefore no accumulated impairment loss.

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

	Commercial Foodservice	Food Processing	Residential Kitchen	Total
Balance as of December 31, 2016	$542,090	$134,680	$415,952	$1,092,722
Goodwill acquired during the year	118,419	58,899	—	177,318
Measurement period adjustments to goodwill acquired in prior year	(36,408)	41	—	(36,367)
Exchange effect	7,350	4,658	19,129	31,137
Balance as of December 30, 2017	$631,451	$198,278	$435,081	$1,264,810
Goodwill acquired during the year	487,032	30,624	—	517,656
Measurement period adjustments to goodwill acquired in prior year	(1,559)	(5,679)	—	(7,238)
Exchange effect	(14,857)	(4,169)	(13,027)	(32,053)

Balance as of December 29, 2018	$1,102,067	$219,054	$422,054	$1,743,175

Intangible assets consist of the following (in thousands):

	December 29, 2018			December 30, 2017		
	Estimated Weighted Avg Remaining Life	Gross Carrying Amount	Accumulated Amortization	Estimated Weighted Avg Remaining Life	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets:						
Customer relationships	9.5	$644,145	$(222,661)	5.2	$330,496	$(171,005)
Backlog	2.8	27,065	(24,755)	0.8	19,689	(18,081)
Developed technology	5.9	39,624	(20,998)	4.2	22,485	(18,248)
		$710,834	$(268,414)		$372,670	$(207,334)
Indefinite-lived assets:						
Trademarks and tradenames		$918,604			$615,090	

The company completed its annual impairment for other intangibles as of September 30, 2018. We identified indicators of impairment associated with certain tradenames in within the Food Processing and Residential Kitchen reporting units based on the qualitative assessment, which required the completion of a quantitative impairment assessment. The primary indicator of impairment was lower than expected revenue performance in the current year. Based on the results of the quantitative assessment, the company determined there was no impairment of any of the indefinite-lived intangible assets.

In performing the quantitative assessment of indefinite-life intangible assets, primarily tradenames, the company estimated the fair value using the relief-from-royalty method which requires assumptions related to projected revenues; assumed royalty rates that could be payable if we did not own the brand; and a market participant discount rate based on a weighted-average cost of capital.

The company elected to perform a qualitative assessment on the other indefinite-life intangible assets noting no events that indicated that the fair value was less than carrying value that would require a quantitative impairment assessment.

The estimates of future cash flows used in determining the fair value of goodwill and intangible assets involve significant management judgment and are based upon assumptions about expected future operating performance, economic conditions, market conditions and cost of capital. Inherent in estimating the future cash flows are uncertainties beyond our control, such as changes in capital markets. The actual cash flows could differ materially from management's estimates due to changes in business conditions, operating performance and economic conditions.

During 2017 testing, the company determined that the Viking tradename, within the Residential Kitchen Equipment Group, was impaired. The company estimated the fair value of the tradename using a relief from royalty method under the income approach. The decline in fair value of the Viking tradename was primarily the result of weaker than expected revenue performance in 2017 and a corresponding reduction of future revenue expectations. The impairment resulted from the decline in revenues attributable, in part, to the product recall announced in 2015 related to products manufactured prior to the acquisition of Viking. The fair value of the Viking tradename was estimated to be $93.0 million as compared to the carrying value of $151.0 million and resulted in a $58.0 million indefinite-lived intangible asset impairment charge.

The aggregate intangible amortization expense was $60.0 million, $38.6 million and $29.9 million in 2018, 2017 and 2016, respectively. The estimated future amortization expense of intangible assets is as follows (in thousands):

2019	$59,995

2020	59,079
2021	55,190
2022	51,184
2023	44,276
2024 and thereafter	172,696
	$442,420

(g) Accrued Expenses

Accrued expenses consist of the following at December 29, 2018 and December 30, 2017, respectively:

	2018	2017
	(dollars in thousands)	
Accrued payroll and related expenses	$74,952	$67,935
Accrued warranty	59,451	52,834
Contract liabilities	57,913	31,069
Accrued customer rebates	45,740	48,590
Accrued sales and other tax	19,452	20,881
Accrued professional fees	17,313	18,250
Accrued product liability and workers compensation	16,284	11,976
Accrued agent commission	11,969	11,035
Other accrued expenses	64,372	59,601
	$367,446	$322,171

(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 (Loss)

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

	2018	2017
	(dollars in thousands)	
Unrecognized pension benefit costs, net of tax of ($36,719) and ($43,592)	$(170,938)	$(203,063)
Unrealized gain on interest rate swap, net of tax of $2,543 and $4,243	7,233	6,365
Currency translation adjustments	(112,771)	(69,721)
	$(276,476)	$(266,419)

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

	Currency Translation Adjustment	Pension Benefit Costs	Unrealized Gain/(Loss) Interest Rate Swap	Total
Balance as of December 31, 2016	$(116,411)	$(173,394)	$ 5,482	$(284,323)
Other comprehensive income before reclassification	46,690	(31,683)	1,822	16,829
Amounts reclassified from accumulated other comprehensive income	—	2,014	(939)	1,075
Net current-period other comprehensive income	$46,690	$(29,669)	$ 883	$17,904
Balance as of December 30, 2017	$(69,721)	$(203,063)	$ 6,365	$(266,419)
Adoption of ASU 2018-02 [(2)]	—	(487)	1,619	1,132
Other comprehensive income before reclassification	(43,050)	29,527	(1,166)	(14,689)
Amounts reclassified from accumulated other comprehensive income	—	3,085	415	3,500
Net current-period other comprehensive income	$(43,050)	$32,125	$ 868	$(10,057)
Balance as of December 29, 2018	$(112,771)	$(170,938)	$ 7,233	$(276,476)

(1) As of December 29, 2018 pension and interest rate swap amounts are net of tax of $(36.7) million and $2.5 million, respectively. During the twelve months ended December 29, 2018, the adjustments to pension benefit costs and unrealized gain/(loss) interest rate swap were net of tax of $6.9 million and $(1.7) million, respectively.
(2) As of December 31, 2017, the company adopted ASU No. 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. The adoption of this guidance resulted in the reclassification of $1.1 million of stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 from accumulated other comprehensive income to retained earnings.

(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 29, 2018 and December 30, 2017 are as follows (in thousands):

	Fair Value Level 1	Fair Value Level 2	Fair Value Level 3	Total
As of December 29, 2018				
Financial Assets:				
Interest rate swaps	$ —	$13,487	$—	$13,487
Financial Liabilities:				
Interest rate swaps	$ —	$4,125	$—	$4,125
Contingent consideration	$ —	$—	$3,566	$3,566
As of December 30, 2017				
Financial Assets:				
Interest rate swaps	$ —	$10,266	$—	$10,266
Financial Liabilities:				
Contingent consideration	$ —	$—	$1,780	$1,780

The contingent consideration, as of December 29, 2018, relates to the earnout provisions recorded in conjunction with the acquisition of Josper. The contingent consideration, as of December 30, 2017, relates to the earnout provisions recorded in conjunction with the acquisitions of Desmon and Scanico.

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 $2.6 million, $2.4 million and $1.9 million in 2018, 2017 and 2016, respectively, and are included in other expense on the statements of earnings.

(l) 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.

(m) 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 2018 and 2017 are as follows:

	2018	2017
	(dollars in thousands)	
Beginning balance	$52,834	$40,851
Warranty reserve related to acquisitions	5,884	7,769
Warranty expense	62,314	58,398
Warranty claims paid	(61,581)	(54,184)
Ending balance	$59,451	$52,834

(n) 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 $35.3 million, $29.1 million and $26.3 million in fiscal 2018, 2017 and 2016, respectively.

(o) 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 $2.5 million, $6.2 million and $27.9 million was recognized for fiscal 2018, 2017 and 2016, respectively, associated with restricted share grants. The company recorded a related tax benefit of $0.0 million, $2.4 million and $10.5 million in fiscal 2018, 2017 and 2016, respectively.

As of December 29, 2018, there was $1.5 million of total unrecognized compensation cost related to nonvested restricted share grant compensation arrangements, which will be recognized over a weighted average life of 1.17 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 132,038 and 76,788 restricted share grant awards in 2018 and 2017, respectively, with a fair value of $13.3 million and $10.5 million, respectively. Share grant awards issued in 2018 and 2017 are generally performance based and were not subject to market conditions. The fair value of $100.50 and $136.29 per share for the awards for 2018 and 2017, respectively, represent the closing share price of the company's stock as of the date of grant.

(p) 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 28,000, 4,000, and 55,000 for fiscal 2018, 2017 and 2016, respectively. There were no anti-dilutive equity awards excluded from common stock equivalents for 2018, 2017 or 2016.

(q) Consolidated Statements of Cash Flows

Cash paid for interest was $55.3 million, $25.9 million and $21.0 million in fiscal 2018, 2017 and 2016, respectively. Cash payments totaling $79.0 million, $123.3 million, and $89.0 million were made for income taxes during fiscal 2018, 2017 and 2016, respectively.

(r) New Accounting Pronouncements

Accounting Pronouncements - Recently Adopted

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 and requires additional disclosures. We adopted this guidance on December 31, 2017 using the modified retrospective method. Under this method, we recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings. The cumulative adjustment to the opening balance of retained earnings was $4.4 million. For additional information related to the impact of adopting this guidance, see above (l) revenue recognition.

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. The adoption of this guidance did not have a material impact on the company's Consolidated Statements of Cash Flows.

In October 2016, the FASB issued ASU No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory, which requires companies to account for the income tax effect of intercompany sales and transfers of assets other than inventory when the transfer occurs. Under previous guidance the income tax effects of intercompany transfers of assets were deferred until the asset had been sold to an outside party or otherwise recognized. The adoption of this guidance did not have an impact on the company's Consolidated Financial Statements.

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. The adoption of this guidance did not have a material impact on the company's Consolidated Financial Statements.

In March 2017, the FASB issued ASU No. 2017-07, Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The amendments in ASU-07 require that an employer report the service costs component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net periodic pension cost and net periodic postretirement benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations. We adopted this guidance retrospectively on December 31, 2017 using the practical expedient which permits utilizing amounts previously disclosed in its employee retirement plans note as the prior period estimation basis for the required retrospective presentation requirements. For additional information on the adoption of this guidance, see Note 11 of the Consolidated Financial Statements.

In February 2018, the FASB issued ASU No. 2018-02, Income Statement-Reporting Comprehensive Income (Topic 220): Reclassification of Certain Tax Effects from Accumulated Other Comprehensive Income. This guidance allows for the reclassification of stranded tax effects resulting from the Tax Cuts and Jobs Act of 2017 from accumulated other comprehensive income to retained earnings. The adoption of this guidance did not have a material impact on the company's Consolidated Balance Sheet.

Accounting Pronouncements - To be adopted

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 or more are treated. Under this guidance, lessees will be required to capitalize virtually all leases on the balance sheet as a right-of-use asset and an associated financing lease liability or operating lease liability. The FASB issued multiple amendments to the standard which provide clarification, additional guidance, practical expedients and other improvements to the ASU. The ASU is effective for annual reporting periods, and interim periods within those reporting periods, beginning after December 15, 2018. The company plans to utilize the new optional transition method to use the effective date as the date of initial application on transition. As a result the company will not adjust its comparative period financial information or make the new required leases disclosures for periods before the effective date. The company has elected the package of practical expedients to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs. The company developed a project plan for implementation, surveyed the company's business, assessed the company's portfolio of leases and compiled a central repository of all leases. The company has also selected a lease accounting software solution to support the new reporting requirements and has loaded required lease data elements into the software solution. To ensure completeness of the population of leases, the company cross referenced year end disclosure information, recorded lease expense and survey responses from the businesses. The company has identified and implemented appropriate changes to policies, procedures and controls pertaining to its existing and future lease arrangements to support recognition and disclosure requirements under the new standard.

The company continues to assess the effects of adoption on the financial statements and believes the most material impact will be the recognition of new right-of-use (ROU) assets and lease liabilities on the Consolidated Balance Sheet for operating leases. The company expects to recognize of $80.0 million to $90.0 million of right-of-use assets upon adoption and lease liabilities on its Consolidated Balance Sheet. The lease liabilities to be recognized will be measured based upon the present value of minimum future payments and the ROU assets to be recognized will be equal to lease liabilities, adjusted for prepaid and accrued rent balances which are recorded in the Consolidated Balance Sheet as of December 30, 2018. The company does not anticipate the new standard will have a significant impact on the Consolidated Statements of Earnings or the Consolidated Statements of Cash Flows. There will also be no impact on existing debt covenants.

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 Consolidated Financial Statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. The amendments in ASU-12 provide new guidance about income statement classification and eliminates the requirement to separately measure and report hedge ineffectiveness. The entire change in fair value for qualifying hedge instruments included in the effectiveness will be recorded in other comprehensive income (OCI) and amounts deferred in OCI will be reclassified to earnings in the same income statement line item in which the earnings effect of the hedged item is reported. This ASU is effective for annual reporting periods, and interim periods with those reporting periods, beginning after December 15, 2018 with early adoption permitted. The company is currently evaluating the impacts the ASU will have on its Consolidated Financial Statements.

In June 2018, the FASB issued ASU No. 2018-07, Improvements to Nonemployee Share-Based Payment Accounting. The amendments in ASU-08 simplify several aspects of the accounting for nonemployee share-based payment transactions resulting from expanding the scope of Topic 718, Compensation—Stock Compensation, to include share-based payment transactions for acquiring goods and services from nonemployees. This ASU is effective for annual reporting periods, and interim periods with those reporting periods, beginning after December 15, 2018 with early adoption permitted. The company does not expect the adoption of this ASU to have a material impact on its Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-13, Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement. The amendments in ASU-13 remove, modify and add various disclosure requirements around the topic in order to clarify and improve the cost-benefit nature of disclosures. This ASU is effective for annual reporting periods, and interim periods with those reporting periods, beginning after December 15, 2019 with early adoption permitted. The company does not expect the adoption of this ASU to have a material impact on its Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-14, Compensation - Retirement Benefits - Defined Benefit Plans - General (Subtopic 715-20). The amendments in ASU-14 remove, modify and add various disclosure requirements around the topic in order to clarify and improve the cost-benefit nature of disclosures. This ASU is effective for annual reporting periods, and interim periods with those reporting periods, beginning after December 15, 2020 with early adoption permitted. The amendments must be applied on a retrospective basis for all periods presented. The company is currently evaluating the impacts the adoption of this ASU will have on its Consolidated Financial Statements.

In August 2018, the FASB issued ASU No. 2018-15, Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40). The amendments in ASU-15 align the requirements for capitalizing implementation costs in a service contract hosting arrangement with those of developing or obtaining internal-use software. This ASU is effective for annual reporting periods, and interim periods with those reporting periods, beginning after December 15, 2019 with early adoption permitted. The company does not expect the adoption of this ASU to have a material impact on its Consolidated Financial Statements.

In November 2018, the FASB issued ASU No. 2018-19, Codification Improvements to Topic 326, Financial Instruments, which clarifies that receivables arising from operating leases are not within the scope of the credit losses standard, but rather, should be accounted for in accordance with the lease standard. This ASU has the same transition requirements and effective date as ASU No. 2016-13. The company does not expect this ASU to have a material impact on its Consolidated Financial Statements.

(4) REVENUE RECOGNITION

On December 31, 2017, we adopted the new accounting standard ASU No. 2014-09, Revenue from Contracts with Customers (ASC 606) using the modified retrospective method to contracts that were not completed as of December 30, 2017. We recognized the cumulative effect of initially applying the new revenue standard as an adjustment to the opening balance of retained earnings.

The adoption of ASC 606 represents a change in accounting principle that will also provide readers with enhanced revenue recognition disclosures. Revenue is recognized when the control of the promised goods or services are transferred to our customers, in an amount that reflects the consideration that we expect to receive in exchange for those goods or services.

A performance obligation is a promise in a contract to transfer a distinct good or service to the customer and represents the unit of account in ASC 606. A contracts transaction price is allocated to each distinct performance obligation and recognized as revenue when, or as, the performance obligation is satisfied. The company’s contracts can have multiple performance obligations or just a single performance obligation. For contracts with multiple performance obligations, the contracts transaction price is allocated to each performance obligation using the company’s best estimate of the standalone selling price of each distinct good or service in the contract.

Within the Commercial Foodservice Equipment and Residential Foodservice Equipment Groups, the estimated standalone selling price of equipment is based on observable prices. Within the Food Processing Equipment Group, the company estimates the standalone selling price based on expected cost to manufacture the good or complete the service plus an appropriate profit margin.

Control may pass to the customer over time or at a point in time. In general, the Commercial Foodservice Equipment and Residential Foodservice Equipment Groups recognize revenue at the point in time control transfers to their customers based on contractual shipping terms. Revenue from equipment sold under our long-term contracts within the Food Processing Equipment group is recognized over time as the equipment is manufactured and assembled. Installation services provided in connection with the delivery of the equipment are also generally recognized as those services are rendered. Over time transfer of control is measured using an appropriate input measure (e.g., costs incurred or direct labor hours incurred in relation to total estimate). These measures include forecasts based on the best information available and therefore reflect the company's judgment to faithfully depict the transfer of the goods.

Contract Estimates
Accounting for long-term contracts within the Food Processing Equipment group involves the use of various techniques to estimate total contract revenue and costs. For the company’s long-term contracts, estimated profit for the equipment performance obligations is recognized as the equipment is manufactured and assembled. Profit on the equipment performance obligations is estimated as the difference between the total estimated revenue and expected costs to complete a contract. Contract cost estimates are based on labor productivity and availability, the complexity of the work to be performed; the cost and availability of materials and labor, and the performance of subcontractors.

Contracts within the Commercial Foodservice and Residential Foodservice Equipment groups may contain variable consideration in the form of volume rebate programs. The company’s estimate of variable consideration is based on its experience with similarly situated customers using the portfolio approach.

Practical Expedients and Policy Elections

The company has taken advantage of the following practical expedients:

- The company does not disclose information about remaining performance obligations that have original expected durations of one year or less.
- The company generally expenses sales commissions when incurred because the amortization period would have been less than one year. These costs are recorded within selling, general and administrative expenses.
- As the company's standard payment terms are less than one year, the company does not assess whether a contract has a significant financing component.

The company has made the following accounting policy elections permitted by ASC 606:

- The company treats shipping and handling activities performed after the customer obtains control of the good as a contract fulfillment activity.
- Sales, use and value added taxes assessed by governmental authorities are excluded from the measurement of the transaction price within the company's contracts with its customers.

Adoption of ASC 606

As a result of the adoption of ASC 606, the company has changed its accounting policy for revenue recognition as detailed below.

Equipment

Under the company's historical accounting policies, revenue under long-term sales contracts within the Food Processing Equipment Group was recognized using the percentage of completion method. Upon adoption, a number of contracts that were not completed as of December 31, 2017 did not meet the requirements for recognition of revenue over time under ASC 606. As such the revenue is deferred and recognized at a point in time.

Installation Services

Under the company's historical accounting policies, the company used the completed contract method for installation services associated with equipment sold within the Food Processing Equipment Group. Under ASC 606, the Company recognizes revenue from installation services over the period the services are rendered.

Product Maintenance

These services are generally recognized on a straight-line basis, because the customer simultaneously receives and consumes the benefit as we perform the services.

The cumulative effect of the changes made to our December 30, 2017 Consolidated Balance Sheet for the adoption of ASC 606 using the modified retrospective method to contracts that were not completed as of December 30, 2017 were as follows (in thousands):

	Balance at December 30, 2017 (as reported)	Adjustments due to ASC 606	Balance at December 30, 2017 (as adjusted)
Balance Sheet			
Assets			
Accounts receivable	$328,421	$ (122)	$328,299
Inventories, net	424,639	14,993	439,632
Prepaid expenses and other	55,427	(4,018)	51,409
Long-term deferred tax assets	44,565	1,319	45,884
Liabilities & Stockholders' Equity			
Accrued expenses	$322,171	$ 16,557	$338,728
Retained earnings	1,697,618	(4,405)	1,693,213

In accordance with the requirements of ASC 606, the adoption of ASC 606 had no impact on cash provided by operating activities within the company's Consolidated Statement of Cash Flows. The impact of adoption on our Consolidated Statement of Earnings and Consolidated Balance Sheet are as follows (in thousands):

	Twelve Months Ended December 29, 2018		
	As Reported	Balances without ASC 606	Effect of Change
Net sales	$2,722,931	$2,702,357	$20,574
Cost of sales	1,718,791	1,703,488	15,303
Provision for income taxes	106,361	105,132	1,229
Net earnings	$317,152	$313,110	$4,042
Basic earnings per share	$5.71	$5.63	
Diluted earnings per share	$5.70	$5.63	

	Balance as of December 29, 2018		
	As Reported	Balances without ASC 606	Effect of Change
Assets			
Inventories, net	$521,810	$520,631	$1,179
Prepaid expenses and other	50,940	51,315	(375)
Liabilities			
Accrued expenses	$367,446	$368,128	$(682)

Long-term deferred tax liability	113,896	113,841	55
Equity			
Retained earnings	$2,009,233	$2,009,411	$(178)

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Disaggregation of Revenue

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

	Commercial Foodservice	Food Processing	Residential Kitchen	Total
Twelve Months Ended December 29, 2018				
United States and Canada	$ 1,176,006	$ 263,743	$ 366,679	$ 1,806,428
Asia	180,409	36,578	7,155	224,142
Europe and Middle East	315,935	64,666	221,126	601,727
Latin America	57,464	24,607	8,563	90,634
Total	$ 1,729,814	$ 389,594	$ 603,523	$ 2,722,931
Twelve Months Ended December 30, 2017				
United States and Canada	$ 968,483	$ 256,739	$ 344,204	$ 1,569,426
Asia	144,702	25,175	8,099	177,976
Europe and Middle East	226,697	42,473	240,456	509,626
Latin America	42,226	28,330	7,958	78,514
Total	$ 1,382,108	$ 352,717	$ 600,717	$ 2,335,542
Twelve Months Ended December 31, 2016				
United States and Canada	$ 886,597	$ 247,636	$ 367,957	$ 1,502,190
Asia	140,964	24,254	9,234	174,452
Europe and Middle East	196,433	54,688	274,160	525,281
Latin America	42,961	15,657	7,311	65,929
Total	$ 1,266,955	$ 342,235	$ 658,662	$ 2,267,852

Contract Balances

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

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

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

	As of December 29, 2018	At Adoption
Contract assets	$ 14,048	$ 16,753
Contract liabilities	$ 57,913	$ 47,647
Non-current contract liabilities	$ 12,170	$ 1,859

During the twelve months period ended December 29, 2018, the company reclassified $14.2 million to receivable which was included in the contract asset balance at the beginning of the period. During the twelve months period ended December 29, 2018, the company recognized revenue of $47.5 million which was included in the contract liability balance at the beginning of the period. Additions to contract liabilities representing amounts billed to clients in excess of revenue recognized to date were $57.0 million during the twelve months period ended December 29, 2018. The increase in the non-current contract liabilities primarily relates to companies acquired during the twelve months period ended December 29, 2018, and relates principally to contracts for maintenance services. Substantially all of the company's outstanding performance obligations will be satisfied within 12 to 36 months. There were no contract asset impairments during twelve months period ended December 29, 2018.

(5) FINANCING ARRANGEMENTS

The following is a summary of long-term debt at December 29, 2018 and December 30, 2017:

	2018	2017
	(dollars in thousands)	
Senior secured revolving credit line	$1,887,764	$1,022,935
Foreign loans	4,166	5,768
Other debt arrangement	175	178
Total debt	$1,892,105	$1,028,881
Less current maturities of long-term debt	3,207	5,149
Long-term debt	$1,888,898	$1,023,732

On July 28, 2016, the company entered into an amended and restated five year $2.5 billion multi-currency senior secured revolving credit agreement (the "Credit Facility"). On December 18, 2018, the company entered into an amendment to the Credit Facility, increasing the revolving commitments under the Credit Facility by $500.0 million to a total of $3.0 billion. As of December 29, 2018, the company had $1,887.8 million of borrowings outstanding under the Credit Facility, including $1,814.0 million of borrowings in U.S. Dollars and $73.8 million of borrowings denominated in Euro. The company also has $12.1 million in outstanding letters of credit as of December 29, 2018, which reduces the borrowing availability under the Credit Facility. Remaining borrowing availability under this facility was $1.1 billion at December 29, 2018.

At December 29, 2018, borrowings under the Credit Facility accrued interest at a rate of 1.63% above LIBOR per annum or 0.63% 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 4.08% for 2018. The interest rates on borrowings under the Credit Facility may be adjusted quarterly based on the company's Funded Debt Less Unrestricted Cash to Pro Forma EBITDA (the "Leverage Ratio") on a rolling four-quarter basis. Additionally, a commitment fee based upon the Leverage Ratio is charged on the unused portion of the commitments under the Credit Facility. This variable commitment fee was equal to 0.25% per annum as of December 29, 2018.

In addition, the company has other international credit facilities to fund working capital needs outside the United States and the United Kingdom. At December 29, 2018, these foreign credit facilities amounted to $4.2 million in U.S. Dollars with a weighted average per annum interest rate of approximately 5.76%.

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 29, 2018		December 30, 2017	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Total debt	$1,892,105	$1,892,105	$1,028,881	$1,028,881

The company uses floating-to-fixed interest rate swap agreements to hedge variable interest rate risk associated with the Credit Facility. At December 29, 2018, the company had outstanding floating-to-fixed interest rate swaps totaling $999.0 million of notional amount carrying an average interest rate of 2.17% that mature in more than 12 months but less than 72 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 Debt less Unrestricted Cash to Pro Forma EBITDA (each as defined in the Credit Facility) of 3.50 to 1.00, which may be adjusted to 4.00 to 1.00 for a four consecutive fiscal quarter period in connection with certain qualified acquisitions, subject to the terms and conditions contained in the Credit Facility. The Credit Facility is secured by substantially all of the assets of Middleby Marshall, the company and the company's domestic subsidiaries and is unconditionally guaranteed by, subject to certain exceptions, the company and certain of the company's direct and indirect material foreign and domestic subsidiaries. The Credit Facility contains certain customary events of default, including, but not limited to, the failure to make required payments; bankruptcy and other insolvency events; the failure to perform certain covenants; the material breach of a representation or warranty; non-payment of certain other indebtedness; the entry of undischarged judgments against the company or any subsidiary for the payment of material uninsured amounts; the invalidity of the company guarantee or any subsidiary guaranty; and a change of control of the company. At December 29, 2018, 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 (in thousands):

2019	$3,207
2020	349
2021	1,888,112
2022	269
2023 and thereafter	168
	$1,892,105

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(6) COMMON AND PREFERRED STOCK

(a) Shares Authorized

At December 29, 2018 and December 30, 2017, the company had 95,000,000 authorized shares of common stock and 2,000,000 authorized shares of non-voting preferred stock.

(b) Treasury Stock

In November 2017, the company's Board of Directors approved a stock repurchase program authorizing the company to repurchase in the aggregate up to 2,500,000 shares of its outstanding common stock. As of December 29, 2018, 126,200 shares had been purchased under the 2017 stock repurchase program and 2,373,800 remain authorized for repurchase.

(c) Share-Based Awards

The company maintains several stock incentive plans under which the company's Board of Directors issues restricted share grants to key employees. Restricted share grants issued to employees are transferable upon certain vesting requirements being met. The 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. On July 11, 2017 the company increased the maximum amount of shares reserved for issuance under the 2011 Plan by 1,000,000. A maximum amount of 2,650,000 shares can be issued under the 2011 Plan. Stock grants issued to employees are transferable upon certain vesting requirements. As of December 29, 2018, a total of 1,115,116 share-based awards have been issued under the 2011 Plan. This includes 1,115,116 restricted share grants, of which 125,842 remain outstanding and unvested.

A summary of the company’s nonvested restricted share grant activity for fiscal years ended December 29, 2018 and December 30, 2017 is as follows:

	Shares	Weighted Average Grant-Date Fair Value
Nonvested shares at December 31, 2016	616,125	$ 91.76
Granted	76,788	136.29
Vested	(418,125)	86.70
Forfeited	(115,585)	121.65
Nonvested shares at December 30, 2017	159,203	$ 104.44
Granted	132,038	100.50
Vested	(6,203)	126.09
Forfeited	(159,196)	100.84
Nonvested shares at December 29, 2018	125,842	$ 103.29

(7) INCOME TAXES

Earnings before taxes is summarized as follows (in thousands):

	2018	2017	2016
Domestic	$328,870	$290,866	$336,625
Foreign	94,643	92,663	84,680
Total	$423,513	$383,529	$421,305

The provision for income taxes is summarized as follows (in thousands):

	2018	2017	2016
Federal	$66,359	$48,688	$94,621
State and local	16,035	9,076	13,107
Foreign	23,967	27,637	29,361
Total	$106,361	$85,401	$137,089
Current	$85,872	$99,893	$115,726
Deferred	20,489	(14,492)	21,363
Total	$106,361	$85,401	$137,089

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

	2018	2017	2016
U.S. federal statutory tax rate	21.0 %	35.0 %	35.0 %
State taxes, net of federal benefit	3.0	1.5	2.3
U.S. domestic manufacturers deduction	—	(2.1)	(2.4)
Permanent differences	0.2	(0.7)	(1.6)
Foreign income tax rate at rates other than U.S. statutory	1.3	(1.6)	(1.1)
Tax Cuts and Jobs Act of 2017 deferred tax changes	0.2	(10.0)	—
Tax Cuts and Jobs Act of 2017 transition tax	(0.1)	2.0	—
Change in valuation allowances	(0.5)	(2.0)	—
Tax on unremitted earnings	—	1.5	—
Other	—	(1.3)	0.3
Consolidated effective tax	25.1 %	22.3 %	32.5 %

The company's effective tax rate for 2018 was 25.1% as compared to 22.3% in 2017. The effective tax rate for 2018 includes the continuing impact of complying with the Tax Cuts and Jobs Act of 2017 (the Tax Act); including a reduction in the federal tax rate to 21.0%, the move to a territorial U.S. tax system, certain expenses now being non-deductible and additional taxes or benefits under GILTI, BEAT and FDII. The effective tax rate for 2017 included the impact of the provisional estimates for the transition tax and deferred tax rate changes under the Tax Act and favorable benefits for the adoption of ASU 2016-09 "Compensation-Stock Compensation (Topic 718: Improvements to Employee Share-Based Payment Accounting" and valuation allowance reversal. The company elects to account for the GILTI tax as a period cost.

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During 2018, the company finalized the transition tax and deferred tax rate changes under the Tax Act with the filing of its 2017 tax returns. The changes to provisional estimates resulted in a 0.1% increase in the effective rate. The company fully paid its transition tax liability in 2018.

At December 29, 2018 and December 30, 2017, the company had recorded the following deferred tax assets and liabilities:

	2018	2017
	(dollars in thousands)	
Deferred tax assets:		
Compensation related	$3,776	$3,129
Pension and post-retirement benefits	41,502	56,502
Inventory reserves	14,441	11,342
Accrued liabilities and reserves	13,835	9,813
Warranty reserves	10,641	7,232
Net operating loss carryforwards	36,629	37,911
Other	10,531	19,826
Gross deferred tax assets	131,355	145,755
Valuation allowance	(26,023)	(23,190)
Deferred tax assets	$105,332	$122,565
Deferred tax liabilities:		
Intangible assets	$(167,197)	$(137,871)
Depreciable assets	(13,617)	(10,426)
Other	(6,226)	(17,518)
Deferred tax liabilities	$(187,040)	$(165,815)
Net deferred tax assets (liabilities)	$(81,708)	$(43,250)
Long-term deferred asset	32,188	44,565
Long-term deferred liability	(113,896)	(87,815)
Net deferred tax assets (liabilities)	$(81,708)	$(43,250)

The company has recorded tax reserves on undistributed foreign earnings not permanently reinvested of $4.1 million and $3.9 million at December 29, 2018 and December 30, 2017, respectively. No further provisions were made for income taxes that may result from future remittances of undistributed earnings of foreign subsidiaries that are determined to be permanently reinvested, which were $241.0 million on December 29, 2018. Determination of the total amount of unrecognized deferred income taxes on undistributed earnings net of foreign subsidiaries is not practicable.

The company has a deferred tax asset on net operating loss carryforwards totaling $36.6 million as of December 29, 2018. These net operating losses are available to reduce future taxable earnings of certain domestic and foreign subsidiaries. United States federal loss carryforwards total $14.6 million and expire through 2037, state loss carryforwards total $88.0 million and expire through 2038 and international loss carryforwards total $101.4 million and expire through 2030; however, some have no expiration date. Of these carryforwards, $98.9 million is subject to full valuation allowance.

As of December 29, 2018, the total amount of liability for unrecognized tax benefits related to federal, state and foreign taxes was approximately $31.9 million (of which $31.6 million would impact the effective tax rate if recognized) plus approximately $5.1 million of accrued interest and $8.1 million of penalties. The company recognizes interest and penalties accrued related to unrecognized tax benefits in income tax expense. Interest recognized in fiscal years 2018, 2017 and 2016 was $0.6 million, $0.7 million and $0.3 million, respectively. Penalties recognized in fiscal years 2018, 2017 and 2016 was $0.6 million, $1.3 million and $1.0 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 December 31, 2016, December 30, 2017 and December 29, 2018 (in thousands):

Balance at December 31, 2016	$20,289
Increases to current year tax positions	11,843
Increase to prior year tax positions	201
Decrease to prior year tax positions	(9)
Settlements	(439)
Lapse of statute of limitations	(1,955)
Balance at December 30, 2017	$29,930
Increases to current year tax positions	3,912
Increase to prior year tax positions	2,860
Decrease to prior year tax positions	(569)
Lapse of statute of limitations	(4,221)
Balance at December 29, 2018	$31,912

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 $6.3 million of its remaining unrecognized tax benefits may be recognized by the end of 2019 as a result of settlements with taxing authorities or lapses of statutes of limitations.

In the normal course of business, income tax authorities in various income tax jurisdictions both in the United States and internationally conduct routine audits of our income tax returns filed in prior years. These audits are generally designed to determine if individual income tax authorities are in agreement with our interpretations of complex tax regulations regarding the allocation of income to the various income tax jurisdictions. Income tax years are open from 2014 through the current year for the United States federal jurisdiction. Income tax years open for our other major jurisdictions range from 2013 through the current year.

(8) 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 an unrealized loss of $0.9 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. The fair value of these instruments was an asset of $9.4 million and $10.3 million as of December 29, 2018 and December 30, 2017, respectively. The change in fair value of these swap agreements in 2018 was a loss of $0.8 million, net of taxes.

A summary of the company’s interest rate swaps is as follows (in thousands):

		Twelve Months Ended	
	Location	Dec 29, 2018	Dec 30, 2017
Fair value	Other assets	$9,362	$10,266
Amount of gain/(loss) recognized in other comprehensive income	Other comprehensive income	$(561)	$531
Gain/(loss) reclassified from accumulated other comprehensive income (effective portion)	Interest expense	$415	$(939)
Gain/(loss) recognized in income (ineffective portion)	Other expense	$72	$54

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.

(9) LEASE COMMITMENTS

The company leases warehouse space, office facilities and equipment under operating leases, which expire in fiscal 2019 and thereafter. Future minimum payment obligations under these leases are as follows:

	Total Operating Lease Commitments
2019	$ 23,118
2020	19,097
2021	16,576
2022	12,730
2023	8,428
2024 and thereafter	19,881
	$ 99,830

Rental expense pertaining to the operating leases was $30.2 million, $27.1 million and $23.5 million in fiscal 2018, 2017 and 2016 respectively.

(10) SEGMENT INFORMATION

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

The Commercial Foodservice Equipment Group manufactures, sells, and distributes foodservice equipment for the restaurant and institutional kitchen industry. This business segment has manufacturing facilities in Arkansas, California, Illinois, Michigan, New Hampshire, North Carolina, Ohio, Pennsylvania, Tennessee, Texas, Vermont, Washington, Australia, China, Denmark, Estonia, Italy, the Philippines, Spain, Poland, Sweden and the United Kingdom. Principal product lines of this group include conveyor ovens, combi-ovens, convection ovens, baking ovens, proofing ovens, deck ovens, speed cooking ovens, hydrovection ovens, ranges, fryers, rethermalizers, steam cooking equipment, food warming equipment, catering equipment, heated cabinets, charbroilers, ventless cooking systems, kitchen ventilation, induction cooking equipment, countertop cooking equipment, toasters, griddles, charcoal grills, professional mixers, stainless steel fabrication, custom millwork, professional refrigerators, blast chillers, coldrooms, ice machines, freezers, and soft serve, ice cream, coffee, and beverage dispensing equipment. These products are sold and marketed under the brand names: Anets, Bear Varimixer, Beech, Blodgett, Blodgett Combi, Blodgett Range, Bloomfield, Britannia, CTX, Carter-Hoffmann, Celfrost, Concordia, CookTek, Crown, Desmon, Doyon, Eswood, Firex, Follett, Frifri, Giga, Globe, Goldstein, Holman, Houno, IMC, Induc, Jade, JoeTap, Josper, L2F, Lang, Lincat, MagiKitch'n, Market Forge, Marsal, Middleby Marshall, MPC, Nieco, Nu-Vu, PerfectFry, Pitco, QualServ, Southbend, Star, Sveba Dahlen, Taylor, 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, Oklahoma, Texas, Virginia, Washington, Wisconsin, Denmark, France, Germany, India, Italy, and the United Kingdom. Principal product lines of this group include batch ovens, baking ovens, proofing ovens, conveyor belt ovens, continuous processing ovens, frying systems and automated thermal processing systems, grinders, slicers, reduction and emulsion systems, mixers, blenders, battering equipment, breading equipment, seeding equipment, water cutting systems, food presses, food suspension equipment, filling and depositing solutions, forming equipment, automated loading and unloading systems, food safety, food handling, freezing, defrosting and packaging equipment. These products are sold and marketed under the brand names: Alkar, Armor Inox, Auto-Bake, Baker Thermal Solutions, Burford, Cozzini, CVP Systems, Danfotech, Drake, Emico, Glimek, Hinds-Bock, Maurer-Atmos, MP Equipment, M-TEK, RapidPak, Scanico, Spooner Vicars, Stewart Systems, Thurne and Ve.Ma.C.

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

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The chief operating decision maker evaluates individual segment performance based on operating income. 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
2018					
Net sales	$1,729,814	$389,594	$603,523	$ —	$2,722,931
Operating income (4)	393,380	62,435	53,959	(63,808)	445,966
Depreciation and amortization expense	52,598	12,734	30,064	1,842	97,238
Net capital expenditures	17,444	7,373	11,721	(498)	36,040
Total assets	2,906,373	513,189	1,089,103	41,116	4,549,781
Long-lived assets (2)	181,636	33,127	146,897	22,328	383,988
2017					
Net sales	$1,382,108	$352,717	$600,717	$ —	$2,335,542
Operating income (4,5,6)	357,085	88,121	(377)	(66,216)	378,613
Depreciation and amortization expense	29,981	7,357	30,551	1,885	69,774
Net capital expenditures	41,457	5,519	7,637	(120)	54,493
Total assets	1,693,820	450,932	1,140,668	54,293	3,339,713
Long-lived assets (2)	148,565	25,346	167,486	21,191	362,588
2016					
Net sales	$1,266,955	$342,235	$658,662	$ —	$2,267,852
Operating income (4)	350,483	87,039	62,326	(80,830)	419,018
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

(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.
(4) Restructuring expenses are included in operating income of the segment to which they pertain. See note 13 for further details.
(5) Gain on sale of plant is included in Commercial Foodservice.
(6) Impairment of intangible assets is included in Residential Kitchen.

Geographic Information

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

	2018	2017	2016
United States and Canada	$262,482	$221,479	$181,317

Asia	12,136	14,033	14,729
Europe and Middle East	108,001	126,264	119,511
Latin America	1,369	812	987
Total International	121,506	141,109	135,227
	$383,988	$362,588	$316,544

(11) EMPLOYEE RETIREMENT PLANS

(a)Pension Plans

U.S. Plans:

The company maintains a non-contributory defined benefit plan for its union employees at the Elgin, Illinois facility. Benefits are determined based upon retirement age and years of service with the company. This defined benefit plan was frozen on April 30, 2002, and no further benefits accrue to the participants beyond this date. Plan participants will receive or continue to receive payments for benefits earned on or prior to April 30, 2002 upon reaching retirement age.

The company maintains a non-contributory defined benefit plan for its employees at the Smithville, Tennessee facility, which was acquired as part of the Star acquisition. Benefits are determined based upon retirement age and years of service with the company. This defined benefit plan was frozen on April 1, 2008, and no further benefits accrue to the participants beyond this date. Plan participants will receive or continue to receive payments for benefits earned on or prior to April 1, 2008 upon reaching retirement age.

The company also maintains a retirement benefit agreement with its former Chairman ("Chairman Plan"). The retirement benefits are based upon a percentage of the Chairman's final base salary with no increase in compensation.

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 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 2018		Fiscal 2017	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Net Periodic Pension Cost (Benefit):				
Service cost	$365	$3,754	$402	$4,013
Interest cost	1,082	32,173	1,240	32,748
Expected return on assets	(967)	(75,017)	(821)	(70,630)
Amortization of net (gain) loss	(129)	4,056	(330)	3,073
Amortization of prior service cost	—	437	—	—
Curtailment loss	—	906	—	3,305
Pension settlement gain	—	(655)	—	(313)
	$351	$(34,346)	$491	$(27,804)
Change in Benefit Obligation:				
Benefit obligation – beginning of year	$31,908	$1,615,244	$31,949	$1,478,493
Service cost	365	3,754	402	4,013
Prior service cost	—	53,586	—	—
Interest on benefit obligations	1,082	32,173	1,240	32,748
Member contributions	—	290	—	345
Actuarial (gain) loss	(850)	(163,746)	(760)	21,058
Pension settlement gain	—	(873)	—	(4,017)
Net benefit payments	(946)	(72,095)	(923)	(65,160)
Curtailment loss	—	906	—	3,305
Exchange effect	—	(91,664)	—	144,459
Benefit obligation – end of year	$31,559	$1,377,575	$31,908	$1,615,244
Change in Plan Assets:				
Plan assets at fair value – beginning of year	$16,102	$1,296,539	$13,589	$1,173,865
Company contributions	877	4,889	1,476	3,062
Investment (loss) gain	(1,399)	(12,600)	1,960	72,342
Member contributions	—	290	—	345
Pension settlement loss	—	(161)	—	(3,254)
Benefit payments and plan expenses	(946)	(72,095)	(923)	(65,160)
Exchange effect	—	(75,481)	—	115,339
Plan assets at fair value – end of year	$14,634	$1,141,381	$16,102	$1,296,539
Funded Status:				
Unfunded benefit obligation	$(16,925)	$(236,194)	$(15,806)	$(318,705)
Amounts recognized in balance sheet at year end:				
Accrued pension benefits	$(16,925)	$(236,194)	$(15,806)	$(318,705)

	Fiscal 2018		Fiscal 2017	
	U.S. Plans	Non-U.S. Plans	U.S. Plans	Non-U.S. Plans
Pre-tax components in accumulated other comprehensive income at period end:				
Net actuarial loss	$4,985	$202,672	$3,340	$243,315
Pre-tax components recognized in other comprehensive income for the period:				
Current year actuarial (gain) loss	$1,516	$(88,992)	$(1,898)	$44,316
Actuarial gain (loss) recognized	129	(4,741)	330	(7,041)
Prior service cost	—	53,586	—	—
Prior service cost recognized	—	(437)	—	—
Pension settlement gain	—	(713)	—	(763)
Pension settlement gain recognized	—	654	—	313
Total amount recognized	$1,645	$(40,643)	$(1,568)	$36,825
Accumulated Benefit Obligation	$31,559	$1,377,532	$31,908	$1,615,157
Salary growth rate	n/a	0.8%	n/a	0.6%
Assumed discount rate	4.1%	2.7%	3.5%	2.3%
Expected return on assets	6.0%	6.2%	6.0%	6.2%

On December 31, 2017, the company adopted ASU No. 2017-07, "Compensation-Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost". The service cost component is recognized within Selling, general and administrative expenses and the non-operating components of pension benefit are included within Net periodic pension benefit (other than service cost) in the Consolidated Statements of Earnings. The adoption of this standard resulted in a reclassification for fiscal 2017 and 2016, in which previously reported selling, general and administrative expenses was increased by $31.7 million and $27.2 million, respectively. Net earnings and net earnings per share did not change as a result of the adoption of this standard.

On October 26, 2018, in Lloyds Banking Group Pensions Trustees Limited vs. Lloyds Bank plc and Others, the High Court of Justice in the United Kingdom issued a ruling ("Court Ruling") requiring Lloyds Bank plc to equalize benefits payable to men and women under its U.K. defined benefit pension plan. The Court Ruling noted that the formulas used to determine guaranteed minimum pension (GMP) benefits violated gender-pay equality laws due to differences in the way benefits were calculated for men and women. As a result of this ruling, the U.K. pension plan was required to amend its benefit formulas and account for the higher pension payments resulting from GMP equalization. In accordance with ASC 715, this Court Ruling represents a change to for the company's U.K. pension plans resulting in a retroactive increase in benefit levels for plan participants and has been accounted for as a prior service cost deferred in other comprehensive income, to be amortized as a component of net periodic pension benefit in future periods. The U.K. pension plans projected benefit obligation increased $53.6 million as a result of the Court Ruling, subject to potential future adjustments as the calculations by participants are finalized.

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	
		2018	2017
Equity	48 %	42 %	55 %
Fixed income	40	49	35
Money market	4	1	3
Other (real estate investment trusts & commodities contracts)	8	8	7
	100 %	100 %	100 %

Non-U.S. Plans:

	Target Allocation	Percentage of Plan Assets	
		2018	2017
Equity	17 %	23 %	26 %
Fixed income	38	52	48
Alternatives/Other	32	9	12
Real Estate	13	14	11
Cash and cash equivalents	—	2	3
	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. In accordance with ASU 2015-04, "Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets", the company has elected to measure the pension plan assets and obligations as of the calendar month-end closest to the fiscal year end. The following tables summarize the basis used to measure the pension plans' assets at fair value as of December 29, 2018 and December 30, 2017 (in thousands):

U.S. Plans:

	Fiscal 2018			Fiscal 2017		
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)	$175	$ —	$ 175	$486	$ —	$ 486
Equity Securities:						
Large Cap	2,615	2,615	—	3,485	3,485	—
Mid Cap	329	329	—	474	474	—
Small Cap	326	326	—	475	475	—
International	2,937	2,937	—	4,507	4,507	—
Fixed Income:						
Government/Corporate	5,994	5,994	—	4,744	4,744	—
High Yield	1,102	1,102	—	809	809	—
Alternative:						
Global Real Estate Investment Trust	591	591	—	469	469	—
Commodities Contracts	565	565	—	653	653	—
Total	$14,634	$ 14,459	$ 175	$16,102	$ 15,616	$ 486

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

Non-U.S. Plans:

Asset Category	Fiscal 2018 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	$28,434	$ 4,325	$ 2,656	$ —	$21,453
Equity Securities:					
UK	155,687	78,938	—	—	76,749
International:					
Developed	99,872	14,497	—	—	85,375
Emerging	7,488	591	—	—	6,897
Unquoted/Private Equity	1,752	—	—	—	1,752
Fixed Income:					
Government/Corporate:					
UK	468,608	11,860	6,779	—	449,969
International	75,980	—	—	—	75,980
Index Linked	47,873	3,614	—	—	44,259
Other	650	—	—	—	650
Convertible Bonds	188	—	—	—	188
Real Estate:					
Direct	148,551	—	148,551	—	—
Indirect	10,812	188	9,298	—	1,326
Hedge Fund Strategy:					
Equity Long/Short	73,783	—	—	—	73,783
Arbitrage & Event	73,261	—	—	—	73,261
Directional Trading & Fixed Income	44,091	—	—	—	44,091
Cash & Other	21,719	—	—	—	21,719
Direct Sourcing	2,289	—	—	—	2,289
Leveraged Loans	18,295	—	—	—	18,295
Alternative/Other	(137,952)	5	—	86	(138,043)
Total	$1,141,381	$ 114,018	$ 167,284	$ 86	$859,993

Asset Category	Fiscal 2017 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	$42,857	$ 8,135	$ 15,851	$ —	$18,871
Equity Securities:					
UK	178,093	98,408	—	—	79,685
International:					
Developed	145,295	16,627	—	—	128,668
Emerging	7,261	385	—	—	6,876
Unquoted/Private Equity	3,687	—	—	—	3,687
Fixed Income:					
Government/Corporate:					
UK	347,840	12,247	14,417	—	321,176
International	46,065	—	—	—	46,065
Index Linked	228,699	4,055	—	—	224,644
Other	3,750	—	—	—	3,750
Convertible Bonds	187	—	—	—	187
Real Estate:					
Direct	135,238	—	135,238	—	—
Indirect	11,128	191	—	—	10,937
Hedge Fund Strategy:					
Equity Long/Short	79,035	—	—	—	79,035
Arbitrage & Event	83,814	—	—	—	83,814
Directional Trading & Fixed Income	34,107	—	—	—	34,107
Cash & Other	48,440	—	—	—	48,440
Direct Sourcing	1,675	—	—	—	1,675
Leveraged Loans	30,755	—	—	—	30,755
Alternative/Other	(131,387)	(4)	—	101	(131,484)
Total	$1,296,539	$ 140,044	$ 165,506	$ 101	$990,888

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
2019	$1,686	$59,200
2020	1,704	61,498
2021	1,741	62,360
2022	1,755	64,772
2023 through 2028	11,055	393,112

Expected contributions to the U.S. Plans and Non-U.S. Plans to be made in 2019 are $0.6 million and $6.2 million, respectively.

(b) Defined Contribution Plans

As of December 29, 2018, the company maintained two separate defined contribution 401(k) 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.

(12) QUARTERLY DATA (UNAUDITED)

	1st	2nd	3rd	4th	Total Year
	(dollars in thousands, except per share data)				
2018					
Net sales	$584,800	$668,128	$713,331	$756,672	$2,722,931
Gross profit	211,633	250,759	261,160	280,588	1,004,140
Income from operations	86,992	111,310	107,677	139,987	445,966
Net earnings	$65,420	$83,988	$72,905	$94,839	$317,152
Basic earnings per share (1)	$1.18	$1.51	$1.31	$1.71	$5.71
Diluted earnings per share (1)	$1.18	$1.51	$1.31	$1.70	$5.70
2017					
Net sales	$530,297	$579,343	$593,043	$632,859	$2,335,542
Gross profit	209,450	234,608	228,519	240,164	912,741
Income from operations	92,741	113,524	109,444	62,904	378,613

Net earnings	$70,702	$77,569	$74,671	$75,186	$298,128
Basic earnings per share (1)	$1.24	$1.35	$1.31	$1.35	$5.26
Diluted earnings per share (1)	$1.24	$1.35	$1.31	$1.35	$5.26

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

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(13) RESTRUCTURING AND ACQUISITION INTEGRATION INITIATIVES

Commercial Foodservice Equipment Group:

During the fiscal years 2018 and 2017, the company undertook cost reduction initiatives related to the entire Commercial Foodservice Equipment Group. These actions, which are not material to the company's operations, resulted in a charge of $3.5 million and $6.2 million in the twelve months ended December 29, 2018 and December 30, 2017, respectively, primarily for severance related to headcount reductions and consolidation of manufacturing operations. These expenses are reflected in restructuring expenses in the Consolidated Statements of Earnings. The company estimates that these restructuring initiatives will result in future cost savings of approximately $10.0 million annually. The realization of the savings began in 2017 and continued into fiscal year 2018 and the restructuring costs in the future are not expected to be significant related to these actions.

Food Processing Equipment Group:

During the fiscal years 2018 and 2017, the company undertook cost reduction initiatives related to the entire Food Processing Equipment Group. These actions, which are not material to the company's operations, resulted in a charge of $0.7 million and $0.6 million in the twelve months ended December 29, 2018, and December 30, 2017, respectively, primarily for severance related to headcount reductions and is reflected in restructuring expenses in the Consolidated Statements of Earnings. The company estimates that these restructuring initiatives will result in future cost savings of approximately $4.0 million annually. The realization of the savings began in 2017 and continued into fiscal year 2018 and the restructuring costs in the future are not expected to be significant related to these actions.

Residential Kitchen Equipment Group:

During the fiscal years 2018, 2017, 2016, and 2015, the company undertook acquisition integration initiatives primarily related to the AGA Group within the Residential Kitchen Equipment Group. These initiatives included organizational restructuring, headcount reductions, consolidation and disposition of certain facilities and business operations, including the impairment of equipment and facilities.

During fiscal year 2018, the company continued initiatives, primarily related the AGA Group, including additional headcount reductions and the impairment of equipment in conjunction of the disposition of certain facilities and business operations. The company recorded expense in the amount of $15.1 million, $13.1 million and $11.0 million, respectively in the years ended December 29, 2018, December 30, 2017 and December 31, 2016, respectively.

During 2018, the company undertook additional restructuring efforts for Grange, a non-core business within the Residential Kitchen Group and elected to cease operations. This process was largely completed in the fourth quarter of 2018, and the company does not expect to incur significant additional charges related to this restructuring. In connection with this exit activity, the company has recorded charges of $9.1 million. Of this amount, $2.5 million primarily relates to charges for fixed assets and $3.2 million for working capital accounts, and $3.4 million for severance obligations and other closure costs.

These expenses are reflected in restructuring expenses in the Consolidated Statements of Earnings. The cumulative expenses incurred to date for these initiatives is approximately $55.7 million. The company estimated that these restructuring initiatives in 2017 would result in future cost savings of approximately $20.0 million annually. The realization of the savings began in 2017 and continued into fiscal year 2018, primarily related to compensation and facility costs. The company anticipates that all severance obligations for the Residential Kitchen Equipment Group will be paid by the end of fiscal of 2019.

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The costs and corresponding reserve balances for the Residential Kitchen Equipment Group are summarized as follows (in thousands):

	Severance/Benefits	Facilities/Operations	Other	Total
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
Expenses	8,662	3,872	601	13,135
Exchange Effect	533	358	11	902
Payments	(10,642)	(4,795)	(524)	(15,961)
Balance as of December 30, 2017	$ 3,698	$ 1,467	$157	$5,322
Expenses	6,367	3,771	5,001	15,139
Exchange Effect	(49)	(11)	23	(37)
Payments/Utilization	(9,150)	(5,171)	(4,394)	(18,715)
Balance as of December 29, 2018	$ 866	$ 56	$787	$1,709

(14) SUBSEQUENT EVENT

On December 31, 2018, subsequent to the company's fiscal 2018 year end, the company completed its acquisition of all the capital stock of EVO America, Inc. ("EVO"), a leading design and manufacturer of ventless cooking equipment for the commercial foodservice industry, located near Portland, Oregon, for a purchase price of approximately $12.5 million.

THE MIDDLEBY CORPORATION

SCHEDULE II - VALUATION AND QUALIFYING ACCOUNTS AND RESERVES
FOR THE FISCAL YEARS ENDED DECEMBER 29, 2018, DECEMBER 30, 2017
AND DECEMBER 31, 2016
(amounts in thousands)

	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-					
2018	$ 13,182	$ 3,160	$ 1,121	$ (3,855)	$ 13,608
2017	$ 12,600	$ 2,084	$ 478	$ (1,979)	$ 13,182
2016	$ 8,839	$ 46	$ 4,887	$ (1,171)	$ 12,600

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

	Balance Beginning Of Period	Additions/ (Recoveries) Charged to Expense	Write-Offs During the the Period	Balance At End Of Period
Valuation allowance - Deferred tax assets				
2018	$ 23,190	$ 2,833	$ —	$ 26,023
2017	$ 29,893	$ (6,703)	$ —	$ 23,190
2016	$ 20,395	$ 9,498	$ —	$ 29,893

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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 29, 2018. 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 29, 2018, 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 Hinds-Bock (acquired February 16, 2018) Ve.Ma.C (acquired April 3, 2018), Firex (acquired April 27, 2018), Josper (acquired May 10, 2018), Taylor (acquired June 22, 2018), M-TEK (acquired October 1, 2018), and Crown (acquired December 3, 2018).

These acquisitions constitute 0.3% and 28.0% of net and total assets, respectively, 8.1% of net sales and 4.5% of net income of the consolidated financial statements of the Company as of and for the year ended December 29, 2018. These acquisitions are included in the consolidated financial statements of the company as of and for the year ended December 29, 2018. 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 companies.

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 29, 2018.

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 29, 2018.

The Middleby Corporation
February 27, 2019

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 44 are filed as part of this Form 10-K.

3. Exhibits

2.1	Stock Purchase Agreement by and among The Middleby Corporation, Middleby Marshall Inc., United Technologies Corporation, Carrier Corporation, and Carrier Asia Limited, dated May 18, 2018, incorporated by reference to the company's Form 8-K, Exhibit 2.1 filed on May 24, 2018.
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	First Amendment and Tranche Increase Amendment to Sixth Amended and Restated Credit Agreement, dated as of December 18, 2018, among Middleby Marshall Inc., 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 December 20, 2018.
10.3*	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.
10.4*	Employment Agreement of Selim A. Bassoul dated December 23, 2004, incorporated by reference to the company's Form 8-K Exhibit 10.3, dated December 23, 2004, filed on December 28, 2004.
10.5*	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.
10.6*	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.

10.7*	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.
10.8*	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.
10.9*	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.
10.10*	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.
10.11*	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.
10.12*	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.
10.13*	Amendment to Employment Agreement between The Middleby Corporation, Middleby Marshall Inc. and Selim A. Bassoul, dated February 19, 2018, incorporated by reference to the company's Form 8-K Exhibit 10.1, dated February 19, 2018, filed on February 22, 2018.
10.14*	Amendment to Employment Agreement between The Middleby Corporation, Middleby Marshall Inc. and Timothy J. FitzGerald, dated February 19, 2018, incorporated by reference to the company's Form 8K Exhibit 10.2, dated February 19, 2018, filed on February 22, 2018.
10.15*	Employment Agreement between The Middleby Corporation, Middleby Marshall Inc. and David Brewer, dated February 19, 2018, incorporated by reference to the company's Form 8K Exhibit 10.3, dated February 19, 2018, filed on February 22, 2018.
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 29, 2018, filed on February 27, 2019, formatted in Extensive Business Reporting Language (XBRL); (i) consolidated balance sheets, (ii) 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

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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 27th day of February 2019.

THE MIDDLEBY CORPORATION

BY: /s/ Bryan E. Mittelman
Bryan E. Mittelman
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 February 27, 2019.

Signatures	Title
PRINCIPAL EXECUTIVE OFFICER	
/s/ Timothy J. FitzGerald Timothy J. FitzGerald	Chief Executive Officer and Director
PRINCIPAL FINANCIAL AND ACCOUNTING OFFICER	
/s/ Bryan E. Mittelman Bryan E. Mittelman	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	Chairman of the Board, Director
/s/ Nassem Ziyad Nassem Ziyad	Director
/s/ Cathy L. McCarthy Cathy L. McCarthy	Director
/s/ Sarah Palisi Chapin Sarah Palisi Chapin	Director