MIDDLEBY CORP
Form 10-Q
November 08, 2018

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

(Mark One)
x Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934
For the quarterly period ended September 29, 2018
or
o 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

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

Indicate by check mark whether the Registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).
Yes x No o

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

| | | |
|---|---|---|
| Large accelerated filer 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 o No x

As of November 2, 2018, there were 55,846,662 shares of the registrant's common stock outstanding.

THE MIDDLEBY CORPORATION

QUARTER ENDED SEPTEMBER 29, 2018

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

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

| ASSETS | Sep 29, 2018 | Dec 30, 2017 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $76,588 | $89,654 |
| Accounts receivable, net of reserve for doubtful accounts of $13,398 and $13,182 | 410,150 | 328,421 |
| Inventories, net | 512,824 | 424,639 |
| Prepaid expenses and other | 50,142 | 55,427 |
| Prepaid taxes | 28,876 | 33,748 |
| Total current assets | 1,078,580 | 931,889 |
| Property, plant and equipment, net of accumulated depreciation of $161,762 and $142,278 | 311,741 | 281,915 |
| Goodwill | 1,823,258 | 1,264,810 |
| Other intangibles, net of amortization of $247,106 and $207,334 | 1,275,142 | 780,426 |
| Long-term deferred tax assets | 39,483 | 44,565 |
| Other assets | 50,405 | 36,108 |
| Total assets | $4,578,609 | $3,339,713 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current maturities of long-term debt | $3,125 | $5,149 |
| Accounts payable | 197,750 | 146,333 |
| Accrued expenses | 373,297 | 322,171 |
| Total current liabilities | 574,172 | 473,653 |
| Long-term debt | 1,955,243 | 1,023,732 |
| Long-term deferred tax liability | 110,984 | 87,815 |
| Accrued pension benefits | 298,628 | 334,511 |
| Other non-current liabilities | 65,949 | 58,854 |
| Stockholders' equity: | | |
| Preferred stock, $0.01 par value; nonvoting; 2,000,000 shares authorized; none issued | — | — |
| Common stock, $0.01 par value; 62,735,903 and 62,619,865 shares issued in 2018 and 2017, respectively | 145 | 145 |
| Paid-in capital | 380,190 | 374,922 |
| Treasury stock, at cost; 6,889,241 and 6,889,241 shares in 2018 and 2017, respectively | (445,118) | (445,118) |
| Retained earnings | 1,914,394 | 1,697,618 |
| Accumulated other comprehensive loss | (275,978) | (266,419) |
| Total stockholders' equity | 1,573,633 | 1,361,148 |
| Total liabilities and stockholders' equity | $4,578,609 | $3,339,713 |

See accompanying notes

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | Sep 29, 2018 | Sep 30, 2017 | Sep 29, 2018 | Sep 30, 2017 |
| Net sales | $713,331 | $593,043 | $1,966,259 | $1,702,683 |
| Cost of sales | 452,171 | 364,524 | 1,242,707 | 1,030,106 |
| Gross profit | 261,160 | 228,519 | 723,552 | 672,577 |
| Selling, general and administrative expenses | 141,372 | 114,857 | 399,328 | 351,473 |
| Restructuring expenses | 12,111 | 4,218 | 18,245 | 17,437 |
| Gain on sale of plant | — | — | — | (12,042) |
| Income from operations | 107,677 | 109,444 | 305,979 | 315,709 |
| Interest expense and deferred financing amortization, net | 19,143 | 6,550 | 38,370 | 18,057 |
| Net periodic pension benefit (other than service costs) | (9,225) | (8,813) | (28,046) | (25,763) |
| Other (income) expense, net | (260) | (1,068) | 371 | 1,101 |
| Earnings before income taxes | 98,019 | 112,775 | 295,284 | 322,314 |
| Provision for income taxes | 25,114 | 38,104 | 72,971 | 99,372 |
| Net earnings | $72,905 | $74,671 | $222,313 | $222,942 |
| | | | | |
| Net earnings per share: | | | | |
| Basic | $1.31 | $1.31 | $4.00 | $3.91 |
| Diluted | $1.31 | $1.31 | $4.00 | $3.91 |
| Weighted average number of shares | | | | |
| Basic | 55,577 | 56,810 | 55,575 | 57,070 |
| Dilutive common stock equivalents[1] | — | — | — | — |
| Diluted | 55,577 | 56,810 | 55,575 | 57,070 |
| Comprehensive income | $69,027 | $84,320 | $212,754 | $252,372 |

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

See accompanying notes

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

| | Nine Months Ended | |
|---|---|---|
| | Sep 29, 2018 | Sep 30, 2017 |
| Cash flows from operating activities-- | | |
| Net earnings | $222,313 | $222,942 |
| Adjustments to reconcile net earnings to net cash provided by operating activities-- | | |
| Depreciation and amortization | 66,455 | 49,276 |
| Non-cash share-based compensation | 5,268 | 6,478 |
| Deferred income taxes | 13,312 | 21,369 |
| Gain on sale of plant | — | (12.042) |
| Impairment of property, plant and equipment | 783 | 2.894 |
| Non-cash restructuring | 5,179 | — |
| Changes in assets and liabilities, net of acquisitions | | |
| Accounts receivable, net | (38,936) | 13,834 |
| Inventories, net | (25,604) | (19,967) |
| Prepaid expenses and other assets | 10,400 | (3,359) |
| Accounts payable | 24,625 | (17,639) |
| Accrued expenses and other liabilities | (31,748) | (58,894) |
| Net cash provided by operating activities | 252,047 | 204,892 |
| Cash flows from investing activities-- | | |
| Additions to property, plant and equipment | (32,552) | (42,434) |
| Proceeds on sale of property, plant and equipment | — | 14,278 |
| Purchase of Tradename | (5,399) | — |
| Acquisitions, net of cash acquired | (1,147,738) | (159,458) |
| Net cash used in investing activities | (1,185,689) | (187,614) |
| Cash flows from financing activities-- | | |
| Proceeds under Credit Facility | 1,520,225 | 489,484 |
| Repayments under Credit Facility | (588,911) | (272,185) |
| Net repayments under international credit facilities | (6,997) | (1,062) |
| Net repayments under other debt arrangement | (3) | (26) |
| Payments of deferred purchase price | (692) | — |
| Repurchase of treasury stock | — | (224,996) |
| Net cash provided by (used by) financing activities | 923,622 | (8,785) |
| Effect of exchange rates on cash and cash equivalents | (3,046) | 4,748 |
| Changes in cash and cash equivalents-- | | |
| Net (decrease) increase in cash and cash equivalents | (13,066) | 13,241 |
| Cash and cash equivalents at beginning of year | 89,654 | 68,485 |
| Cash and cash equivalents at end of period | $76,588 | $81,726 |
| | | |
| Non-cash investing and financing activities: | | |
| Stock issuance related to the acquisition of CVP Systems | $— | $12,330 |

See accompanying notes

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THE MIDDLEBY CORPORATION
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 29, 2018
(Unaudited)

1) Summary of Significant Accounting Policies

A) Basis of Presentation

The condensed consolidated financial statements have been prepared by The Middleby Corporation (the "company" or “Middleby”), pursuant to the rules and regulations of the Securities and Exchange Commission ("SEC"). The financial statements are unaudited and certain information and footnote disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been condensed or omitted pursuant to such rules and regulations, although the company believes that the disclosures are adequate to make the information not misleading. These financial statements should be read in conjunction with the financial statements and related notes contained in the company's 2017 Form 10-K. The company’s interim results are not necessarily indicative of future full year results for the fiscal year 2018.

In the opinion of management, the financial statements contain all adjustments, which are normal and recurring in nature, necessary to present fairly the financial position of the company as of September 29, 2018 and December 30, 2017, the results of operations for the three and nine months ended September 29, 2018 and September 30, 2017 and cash flows for the nine months ended September 29, 2018 and September 30, 2017.

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).

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the company to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses. Significant estimates and assumptions are used for, but are not limited to, allowances for doubtful accounts, reserves for excess and obsolete inventories, long-lived and intangible assets, warranty reserves, insurance reserves, income tax reserves, non-cash share-based compensation and post-retirement obligations. Actual results could differ from the company's estimates.

B) Non-Cash Share-Based Compensation

The company estimates the fair value of market-based stock awards and stock options at the time of grant and recognizes compensation cost over the vesting period of the awards and options. Non-cash share-based compensation expense was $3.5 million and less than $0.1 million for the three months period ended September 29, 2018 and September 30, 2017, respectively. Non-cash share-based compensation expense was $5.3 million and $6.5 million for the nine months period ended September 29, 2018 and September 30, 2017, respectively.

C) Income Taxes

A tax provision of $73.0 million, at an effective rate of 24.7%, was recorded during the nine months period ended September 29, 2018, as compared to a $99.4 million tax provision at a 30.8% in the prior year period. 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 a 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". During the nine months ended September 30, 2018, we have not recorded any measurement period adjustments to the provisional estimates recorded at December 31, 2017. Final accounting for these impacts is expected in the fourth quarter of 2018, subsequent to the company's completion of 2017 tax returns.

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D) Fair Value Measures

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

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

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

| | Fair Value Level 1 | Fair Value Level 2 | Fair Value Level 3 | Total |
|---|---|---|---|---|
| As of September 29, 2018 | | | | |
| Financial Assets: | | | | |
| Interest rate swaps | $ — | $26,485 | $— | $26,485 |
| | | | | |
| Financial Liabilities: | | | | |
| Contingent consideration | $ — | $— | $4,070 | $4,070 |
| | | | | |
| 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 September 29, 2018 relates to the earnout provision recorded in conjunction with the acquisitions of Scanico A/S ("Scanico") and Josper S.A ("Josper"). The contingent consideration as of December 30, 2017 relates to the earnout provisions recorded in conjunction with the acquisitions of Scanico and Desmon Food Service Equipment Company ("Desmon").

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 acquired businesses in comparison to the earnout targets and adjusts the liability accordingly.

E) Consolidated Statements of Cash Flows

Cash paid for interest was $35.9 million and $17.4 million for the nine months ended September 29, 2018 and September 30, 2017, respectively. Cash payments totaling $61.3 million and $96.7 million were made for income taxes for the nine months ended September 29, 2018 and September 30, 2017, respectively.

2) Acquisitions and Purchase Accounting

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

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

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 of deferred tax asset 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. 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 $29.8 million, net of cash acquired. The purchase price included $18.0 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 of deferred tax asset related to federal and state net operating loss carryforwards and $0.8 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 $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 assets and $0.9 million of deferred tax liabilities arising from the difference between the book and tax basis of 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 liabilities 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 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 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 7, 2017 | Preliminary Measurement Period Adjustments | (as adjusted) December 7, 2017 |
|---|---|---|---|
| Cash | $ 6,766 | $ — | $ 6,766 |
| Current assets | 3,428 | (111) | 3,317 |
| Property, plant and equipment | 447 | (27) | 420 |
| Goodwill | 30,072 | 470 | 30,542 |
| Other intangibles | 11,491 | — | 11,491 |
| Current liabilities | (7,987) | (28) | (8,015) |
| Long term deferred tax liability | (3,305) | 30 | (3,275) |
| 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 $3.3 million. The net liability is comprised of $2.5 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 $6.6 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also include $2.0 million allocated to customer relationships, $0.9 million allocated to developed technology and $2.0 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 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. This earnout is payable during 2018, if Scanico exceeds certain sales and earnings targets for the twelve months ended June 30, 2018. The contractual obligation associated with this contingent earnout provision recognized on the acquisition date is $0.8 million.

The company believes that information gathered to date provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the company is waiting for additional information necessary to finalize those fair values. 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.

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 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) February 16, 2018 | Preliminary 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 | (397) | 12,289 |
| Other intangibles | 8,081 | — | 8,081 |
| Current liabilities | (3,800) | — | (3,800) |
| Net assets acquired and liabilities assumed | $25,830 | $ (400) | $25,430 |

The goodwill and $3.8 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also include $3.4 million allocated to customer relationships, $0.4 million allocated to developed technology and $0.5 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 Hinds-Bock are allocated to the Food Processing Equipment Group for segment reporting purposes. These assets are expected to be deductible for tax purposes.

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

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 | — | 7,278 |
| Other intangibles | 2,584 | — | 2,584 |
| Other assets | 12 | — | 12 |
| Current portion of long-term debt | (1,901 ) | — | (1,901 ) |
| Current liabilities | (8,076 ) | — | (8,076 ) |
| 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.

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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 | 81 | 7,737 |
| Property, plant and equipment | 2,447 | — | 2,447 |
| Goodwill | 36,706 | (295) | 36,411 |
| Other intangibles | 19,806 | — | 19,806 |
| Current portion of long-term debt | (1,210) | — | (1,210) |
| Current liabilities | (4,099) | — | (4,099) |
| Long term deferred tax liability | (4,995) | — | (4,995) |
| 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 $39.5 million, net of cash acquired. The purchase price is subject to adjustment based upon a working capital provision provided by the purchase agreement. The company expects to finalize this in the fourth quarter of 2018. An additional payment is also due upon the achievement of certain financial targets.

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 | (74) | 27,066 |
| Other intangibles | 13,136 | — | 13,136 |
| Other assets | 2 | — | 2 |
| Current portion of long-term debt | (217) | — | (217) |
| Current liabilities | (5,146) | 52 | (5,094) |
| Long-term debt | (1,608) | — | (1,608) |
| Long term deferred tax liability | (2,934) | 8 | (2,926) |
| Other non-current liabilities | (2,169) | — | (2,169) |
| Consideration paid at closing | $42,830 | $ — | $42,830 |
| Contingent consideration | 3,454 | — | 3,454 |
| Net assets acquired and liabilities assumed | $46,284 | $ — | $46,284 |

The long term deferred tax liability amounted to $2.9 million. The net liability is comprised of $2.8 million of deferred tax liability related to the difference between the book and tax basis of identifiable intangible assets and $0.1 million of deferred tax liability related to the difference between the book and tax basis on identifiable tangible asset and liability accounts.

The goodwill and $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, $0.2 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. The purchase price is subject to adjustment based upon a working capital provision provided by the purchase agreement. The company expects to finalize this in the fourth quarter of 2018. Net sales for the three months period ended September 29, 2018 increased by $118.0 million related to prior and current year acquisitions, primarily related to the Taylor acquisition.

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

| | (as initially reported) June 22, 2018 | Preliminary Measurement Period Adjustments | (as adjusted) June 22, 2018 |
|---|---|---|---|
| Cash | $2,551 | $ 64 | $2,615 |
| Current assets | 71,162 | (523) | 70,639 |
| Property, plant and equipment | 21,187 | (112) | 21,075 |
| Goodwill | 491,339 | 6,017 | 497,356 |
| Other intangibles | 484,210 | — | 484,210 |
| Other assets | — | 361 | 361 |
| Current liabilities | (48,417) | (2,313) | (50,730) |
| Long-term deferred tax liability | — | 380 | 380 |
| Other non-current liabilities | (8,161) | — | (8,161) |
| Net assets acquired and liabilities assumed | $1,013,871 | $ 3,874 | $1,017,745 |

The goodwill and $230.0 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also include $237.5 million allocated to customer relationships, $15.0 million allocated to developed technology, and $1.7 million of existing developed oven technology, which are to be amortized over periods of 10 years, 7 years and 5 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 tangible and 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.

Pro Forma Financial Information

In accordance with ASC 805 "Business Combinations", the following unaudited pro forma results of operations for the nine months ended September 29, 2018 and September 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 and Taylor 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):

| | Nine Months Ended | |
|---|---|---|
| | September 29, 2018 | September 30, 2017 |
| Net sales | $2,130,166 | $ 2,151,230 |
| Net earnings | 219,914 | 198,430 |
| | | |
| Net earnings per share: | | |
| Basic | $3.96 | $ 3.48 |
| Diluted | 3.96 | 3.48 |

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

3) Litigation Matters

From time to time, the company is subject to proceedings, lawsuits and other claims related to products, suppliers, employees, customers and competitors. The company maintains insurance to partially cover product liability, workers compensation, property and casualty, and general liability matters. The company is required to assess the likelihood of any adverse judgments or outcomes to these matters as well as potential ranges of probable losses. A determination of the amount of accrual required, if any, for these contingencies is made after assessment of each matter and the related insurance coverage. The required accrual may change in the future due to new developments or changes in approach such as a change in settlement strategy in dealing with these matters. The company does not believe that any pending litigation will have a material effect on its financial condition, results of operations or cash flows.

4) Recently Issued Accounting Standards

Accounting Pronouncements - Recently Adopted

In May 2014, the Financial Accounts Standards Board ("FASB") issued Accounting Standards Update ("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 Note 5 of the Condensed Consolidated Financial Statements.

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 Condensed 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 Condensed 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 Condensed 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 15 of the Condensed Consolidated Financial Statements.

In February 2018, the FASB issued ASU 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 Condensed Consolidated Balance Sheet.

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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 is currently planning to elect the package of practical expedients to not reassess prior conclusions related to contracts containing leases, lease classification and initial direct costs and is evaluating other practical expedients available under the guidance. The company has developed a project plan for implementation and has made progress in surveying the company's business, assessing the company's portfolio of leases and compiling a central repository of all leases. The company has also selected a lease accounting software solution to support the new reporting requirements. Significant progress has been made on extracting and loading lease data elements required for lease accounting into the software solution. The company expects to recognize significant right-of-use assets upon adoption and lease liabilities on its Condensed Consolidated Balance Sheet. The company is evaluating the overall impact this standard will have on its policies and procedures pertaining to its existing and future lease arrangements, disclosure requirements and the company's Condensed Consolidated Financial Statements.

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 Condensed Consolidated Financial Statements.

In August 2017, the FASB issued ASU 2017-12, "Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities". The amendments in ASU-12 provide new guidance about income statement classification and eliminates the requirement to separately measure and report hedge ineffectiveness. The entire change in fair value for qualifying hedge instruments included in the effectiveness 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 Condensed Consolidated Financial Statements.

In June 2018, the FASB issued ASU 2018-07, "Improvements to Nonemployee Share-Based Payment Accounting". The amendments in ASU-08 simplify several aspects of the accounting for nonemployee share-based payment transactions resulting from expanding the scope of Topic 718, Compensation—Stock Compensation, to include share-based payment transactions for acquiring goods and services from nonemployees. 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 Condensed Consolidated Financial Statements.

In August 2018, the FASB issued ASU 2018-13, "Fair Value Measurement (Topic 820): Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement". The amendments in ASU-13 remove, modify and add various disclosure requirements around the topic in order to clarify and improve the cost-benefit nature of disclosures. This ASU is effective for annual reporting periods, and interim periods with those reporting periods, beginning after December 15, 2019 with early adoption permitted. The company does not expect the adoption of this ASU to have a material impact on its Condensed Consolidated Financial Statements.

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

In August 2018, the FASB issued ASU 2018-15, "Intangibles - Goodwill and Other - Internal-Use Software (Subtopic 350-40)". The amendments in ASU-15 align the requirements for capitalizing implementation costs in a service contract hosting arrangement with those of developing or obtaining internal-use software. This ASU is effective for annual reporting periods, and interim periods with those reporting periods, beginning after December 15, 2019 with early adoption permitted. The company does not expect the adoption of this ASU to have a material impact on its Condensed Consolidated Financial Statements.

5) Revenue Recognition

Accounting Policy

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 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.

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.

The cumulative effect of the changes made to our December 30, 2017 Condensed 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 Condensed Consolidated Statement of Cash Flows. The impact of adoption on our Condensed Consolidated Statement of Comprehensive Income and Condensed Consolidated Balance Sheet are as follows (in thousands):

| | Three Months Ended September 29, 2018 | | |
|---|---|---|---|
| | As Reported | Balances without ASC 606 | Effect of Change |
| Net sales | $713,331 | $710,755 | $2,576 |
| Cost of sales | 452,171 | 450,440 | 1,731 |
| Provision for income taxes | 25,114 | 24,857 | 257 |
| Net earnings | $72,905 | $72,317 | $588 |
| | | | |
| Basic earnings per share | $1.31 | $1.30 | |
| Diluted earnings per share | $1.31 | $1.30 | |

| | Nine Months Ended September 29, 2018 | | |
|---|---|---|---|
| | As Reported | Balances without ASC 606 | Effect of Change |
| Net sales | $1,966,259 | $1,949,110 | $17,149 |
| Cost of sales | 1,242,707 | 1,230,578 | 12,129 |
| Provision for income taxes | 72,971 | 71,649 | 1,322 |
| Net earnings | $222,313 | $218,615 | $3,698 |
| | | | |
| Basic earnings per share | $4.00 | $3.93 | |
| Diluted earnings per share | $4.00 | $3.93 | |

| | Balance as of September 29, 2018 | | |
|---|---|---|---|
| | As Reported | Balances without ASC 606 | Effect of Change |
| Assets | | | |
| Inventories, net | $512,824 | $507,677 | $5,147 |
| Prepaid expenses and other | 50,142 | 51,895 | (1,753 ) |
| | | | |
| Liabilities | | | |
| Accrued expenses | 373,297 | 377,718 | (4,421 ) |
| Long-term deferred tax liability | 110,984 | 110,768 | 216 |
| | | | |
| Equity | | | |
| Retained earnings | $1,914,394 | $1,913,583 | $811 |

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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 |
|---|---|---|---|---|
| Three Months Ended September 29, 2018 | | | | |
| United States and Canada | $ 318,962 | $ 57,235 | $ 98,136 | $ 474,333 |
| Asia | 50,996 | 6,464 | 1,653 | 59,113 |
| Europe and Middle East | 83,763 | 19,194 | 51,936 | 154,893 |
| Latin America | 17,877 | 5,364 | 1,751 | 24,992 |
| Total | $ 471,598 | $ 88,257 | $ 153,476 | $ 713,331 |
| | | | | |
| Nine Months Ended September 29, 2018 | | | | |
| United States and Canada | $ 863,598 | $ 183,476 | $ 280,116 | $ 1,327,190 |
| Asia | 117,987 | 23,899 | 5,232 | 147,118 |
| Europe and Middle East | 225,726 | 44,729 | 160,810 | 431,265 |
| Latin America | 38,308 | 18,374 | 4,004 | 60,686 |
| Total | $ 1,245,619 | $ 270,478 | $ 450,162 | $ 1,966,259 |
| | | | | |
| Three Months Ended September 30, 2017 | | | | |
| United States and Canada | $ 243,233 | $ 61,612 | $ 89,821 | $ 394,666 |
| Asia | 38,755 | 4,543 | 2,078 | 45,376 |
| Europe and Middle East | 61,327 | 12,606 | 57,774 | 131,707 |
| Latin America | 11,513 | 8,110 | 1,671 | 21,294 |
| Total | $ 354,828 | $ 86,871 | $ 151,344 | $ 593,043 |
| | | | | |
| Nine Months Ended September 30, 2017 | | | | |
| United States and Canada | $ 707,014 | $ 189,288 | $ 263,014 | $ 1,159,316 |
| Asia | 104,598 | 14,942 | 6,615 | 126,155 |
| Europe and Middle East | 158,622 | 29,095 | 170,934 | 358,651 |
| Latin America | 30,596 | 23,190 | 4,775 | 58,561 |
| Total | $ 1,000,830 | $ 256,515 | $ 445,338 | $ 1,702,683 |

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Contract Balances

Contract assets primarily relate to the company's right to consideration for work completed but not billed at the reporting date and are recorded in prepaid expenses and other in the Condensed Consolidated Balance Sheet. Contract assets are transferred to receivables when the right to consideration becomes unconditional. Accounts receivable are not considered contract assets under the 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 Condensed Consolidated Balance Sheet. Non-current contract liabilities are recorded in other non-current liabilities in the Condensed Consolidated Balance Sheet. Contract liabilities are reduced when the associated revenue from the contract is recognized.

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

| | Sep 29, 2018 | At Adoption |
|---|---|---|
| Contract assets | $8,945 | $ 16,753 |
| Contract liabilities | $69,936 | $ 47,647 |
| Non-current contract liabilities | $10,468 | $ 1,859 |

During the nine months period ended September 29, 2018, the company reclassified $11.5 million to receivable which was included in the contract asset balance at the beginning of the period. During the nine months period ended September 29, 2018, the company recognized revenue of $42.1 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 $63.7 million during the nine months period ended September 29, 2018. The increase in the non-current contract liabilities primarily relates to companies acquired during the nine months period ended September 29, 2018. Substantially all of the company's outstanding performance obligations will be satisfied within 12 to 36 months. There were no contract asset impairments during nine months period ended September 29, 2018.

6) Other Comprehensive Income

The company reports changes in equity during a period, except those resulting from investments by owners and distributions to owners, in accordance with ASC 220, "Comprehensive Income".

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

| | Currency Translation Adjustment | Pension Benefit Costs | Unrealized Gain/(Loss) Interest Rate Swap | Total |
|---|---|---|---|---|
| Balance as of December 30, 2017 | $ (69,721 ) | $ (203,063 ) | $ 6,365 | $ (266,419 ) |
| Adoption of ASU 2018-02 (2) | — | (487 ) | 1,619 | 1,132 |
| Other comprehensive income before reclassification | (29,879 ) | 7,041 | 11,918 | (10,920 ) |
| Amounts reclassified from accumulated other comprehensive income | — | — | 229 | 229 |
| Net current-period other comprehensive income | $ (29,879 ) | $ 6,554 | $ 13,766 | $ (9,559 ) |
| Balance as of September 29, 2018 | $ (99,600 ) | $ (196,509 ) | $ 20,131 | $ (275,978 ) |

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

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

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | Sep 29, 2018 | Sep 30, 2017 | Sep 29, 2018 | Sep 30, 2017 |
| Net earnings | $72,905 | $74,671 | $222,313 | $222,942 |
| Currency translation adjustment | (9,718) | 15,441 | (29,879) | 44,897 |
| Pension liability adjustment, net of tax | 1,674 | (5,664) | 6,554 | (14,838) |
| Unrealized gain on interest rate swaps, net of tax | 4,166 | (128) | 13,766 | (629) |
| Comprehensive income | $69,027 | $84,320 | $212,754 | $252,372 |

7) Inventories

Inventories are composed of material, labor and overhead and are stated at the lower of cost or market. Costs for inventory have been determined using the first-in, first-out ("FIFO") method. The company estimates reserves for inventory obsolescence and shrinkage based on its judgment of future realization. Inventories at September 29, 2018 and December 30, 2017 are as follows (in thousands):

| | Sep 29, 2018 | Dec 30, 2017 |
|---|---|---|
| Raw materials and parts | $233,061 | $180,559 |
| Work-in-process | 56,838 | 38,917 |
| Finished goods | 222,925 | 205,163 |
| | $512,824 | $424,639 |

8) Goodwill

Changes in the carrying amount of goodwill for the nine months ended September 29, 2018 are as follows (in thousands):

| | Commercial Foodservice | Food Processing | Residential Kitchen | Total |
|---|---|---|---|---|
| Balance as of December 30, 2017 | $631,451 | $198,278 | $435,081 | $1,264,810 |
| Goodwill acquired during the year | 563,661 | 19,567 | — | 583,228 |
| Measurement period adjustments to goodwill acquired in prior year | (1,559) | (468) | — | (2,027) |
| Exchange effect | (11,941) | (3,338) | (7,474) | (22,753) |
| Balance as of September 29, 2018 | $1,181,612 | $214,039 | $427,607 | $1,823,258 |

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9) Intangibles

Intangible assets consist of the following (in thousands):

| | September 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 lists | 8.0 | $602,376 | $(206,950) | 5.2 | $330,496 | $(171,005) |
| Backlog | 0.0 | 19,910 | (19,910) | 0.8 | 19,689 | (18,081) |
| Developed technology | 6.1 | 40,559 | (20,246) | 4.2 | 22,485 | (18,248) |
| | | $662,845 | $(247,106) | | $372,670 | $(207,334) |
| Indefinite-lived assets: | | | | | | |
| Trademarks and tradenames | | $859,403 | | | $615,090 | |

The aggregate intangible amortization expense was $17.6 million and $9.1 million for the third quarter periods ended September 29, 2018 and September 30, 2017, respectively. The aggregate intangible amortization expense was $38.8 million and $26.5 million for the nine months ended September 29, 2018 and September 30, 2017, respectively. The estimated future amortization expense of intangible assets is as follows (in thousands):

| Twelve Month Period Ending in | Amortization Expense |
|---|---|
| 2019 | $ 61,942 |
| 2020 | 59,711 |
| 2021 | 56,231 |
| 2022 | 53,622 |
| 2023 | 44,918 |
| Thereafter | 139,315 |
| | $ 415,739 |

10) Accrued Expenses

Accrued expenses consist of the following (in thousands):

| | Sep 29, 2018 | Dec 30, 2017 |
|---|---|---|
| Accrued payroll and related expenses | $70,998 | $67,935 |
| Contract liabilities | 69,936 | 31,069 |
| Accrued warranty | 59,644 | 52,834 |
| Accrued customer rebates | 39,465 | 48,590 |
| Accrued professional fees | 18,723 | 18,250 |
| Accrued product liability and workers compensation | 16,439 | 11,976 |
| Accrued sales and other tax | 15,509 | 20,881 |
| Accrued agent commission | 12,809 | 11,035 |
| Product recall | 5,140 | 6,068 |
| Restructuring | 2,679 | 1,715 |
| Other accrued expenses | 61,955 | 51,818 |
| | $373,297 | $322,171 |

11) Warranty Costs

In the normal course of business the company issues product warranties for specific product lines and provides for the estimated future warranty cost in the period in which the sale is recorded. The estimate of warranty cost is based on contract terms and historical warranty loss experience that is periodically adjusted for recent actual experience. Because warranty estimates are forecasts that are based on the best available information, actual claims costs may differ from amounts provided. Adjustments to initial obligations for warranties are made as changes in the obligations become reasonably estimable.

A rollforward of the warranty reserve is as follows (in thousands):

| | Nine Months Ended Sep 29, 2018 |
|---|---|
| Balance as of December 30, 2017 | $52,834 |
| Warranty reserve related to acquisitions | 5,730 |
| Warranty expense | 45,208 |
| Warranty claims | (44,128 ) |
| Balance as of September 29, 2018 | $59,644 |

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12) Financing Arrangements

| | Sep 29, 2018 | Dec 30, 2017 |
|---|---|---|
| | (in thousands) | |
| Credit Facility | $1,954,013 | $1,022,935 |
| Other international credit facilities | 4,180 | 5,768 |
| Other debt arrangement | 175 | 178 |
| Total debt | $1,958,368 | $1,028,881 |
| Less: Current maturities of long-term debt | 3,125 | 5,149 |
| Long-term debt | $1,955,243 | $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"), with the potential under certain circumstances to increase the amount of the Credit Facility to $3.0 billion. As of September 29, 2018, the company had $2.0 billion of borrowings outstanding under the Credit Facility, including $1.9 billion of borrowings in U.S. Dollars, $80.0 million of borrowings denominated in Euro and $6.5 million of borrowings denominated in British Pounds. The company also had $12.3 million in outstanding letters of credit as of September 29, 2018, which reduces the borrowing availability under the Credit Facility. Remaining borrowing availability under this facility was $0.5 billion at September 29, 2018.

At September 29, 2018, borrowings under the Credit Facility accrued interest at a rate of 1.625% above LIBOR per annum or 0.625% above the highest of the prime rate, the federal funds rate plus 0.50% and one month LIBOR plus 1.00%. The average interest rate per annum on the debt under the Credit Facility was equal to 3.81% at the end of the period. The interest rates on borrowings under the Credit Facility may be adjusted quarterly based on the company's Funded Debt less Unrestricted Cash to Pro Forma EBITDA (the "Leverage Ratio") on a rolling four-quarter basis. Additionally, a commitment fee based upon the Leverage Ratio is charged on the unused portion of the commitments under the Credit Facility. This variable commitment fee was equal to 0.25% per annum as of September 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 September 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 5.59%.

The company's debt is reflected on the balance sheet at cost. The company believes its interest rate margins on its existing debt are consistent with current market conditions and therefore the carrying value of debt reflects the fair value. The interest rate margin is based on the company's Leverage Ratio.

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

| | Sep 29, 2018 | | Dec 30, 2017 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Total debt | $1,958,368 | $1,958,368 | $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 September 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 84 months.

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

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

13) Financial Instruments

ASC 815 “Derivatives and Hedging” requires an entity to recognize all derivatives as either assets or liabilities and measure those instruments at fair value. Derivatives that do not qualify as a hedge must be adjusted to fair value in earnings. If a derivative does qualify as a hedge under ASC 815, changes in the fair value will either be offset against the change in the fair value of the hedged assets, liabilities or firm commitments or recognized in other accumulated comprehensive income until the hedged item is recognized in earnings. The ineffective portion of a hedge's change in fair value will be immediately recognized in earnings.

Foreign Exchange: The company uses foreign currency forward, foreign exchange swaps and option purchase and sales contracts to hedge its exposure to changes in foreign currency exchange rates. The company’s primary hedging activities are to mitigate its exposure to changes in exchange rates on intercompany and third party trade receivables and payables. The company does not currently enter into derivative financial instruments for speculative purposes. In managing its foreign currency exposures, the company identifies and aggregates naturally occurring offsetting positions and then hedges residual balance sheet exposures. The fair value of the forward and option contracts was a gain of $0.4 million at the end of the third quarter of 2018.

Interest Rate: The company has entered into interest rate swaps to fix the interest rate applicable to certain of its variable-rate debt. The agreements swap one-month LIBOR for fixed rates. The company has designated these swaps as cash flow hedges and all changes in fair value of the swaps are recognized in accumulated other comprehensive income. As of September 29, 2018, the fair value of these instruments was an asset of $26.5 million. The change in fair value of these swap agreements in the first nine months of 2018 was a gain of $13.6 million, net of taxes.

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

| | Condensed Consolidated Balance Sheet Presentation | Sep 29, 2018 | Dec 30, 2017 |
|---|---|---|---|
| Fair value | Other assets | $26,485 | $10,266 |

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

| | Presentation of Gain/(loss) | Three Months Ended Sep 29, 2018 | Three Months Ended Sep 30, 2017 | Nine Months Ended Sep 29, 2018 | Nine Months Ended Sep 30, 2017 |
|---|---|---|---|---|---|
| Gain/(loss) recognized in accumulated other comprehensive income | Other comprehensive income | $5,389 | $(294) | $16,347 | $(1,937) |
| Gain/(loss) reclassified from accumulated other comprehensive income (effective portion) | Interest expense | $(7) | $(81) | $229 | $(887) |
| Gain/(loss) recognized in income (ineffective portion) | Other expense | $214 | $28 | $101 | $13 |

Interest rate swaps are subject to default risk to the extent the counterparties are unable to satisfy their settlement obligations under the interest rate swap agreements. The company reviews the credit profile of the financial institutions that are counterparties to such swap agreements and assesses their creditworthiness prior to entering into the interest rate swap agreements and throughout the term. The interest rate swap agreements typically contain provisions that allow the counterparty to require early settlement in the event that the company becomes insolvent or is unable to maintain compliance with its covenants under its existing debt agreements.

14) Segment Information

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

The Commercial Foodservice Equipment Group manufactures, sells, and distributes foodservice equipment for the restaurant and institutional kitchen industry. This business segment has manufacturing facilities in Arkansas, California, Illinois, Michigan, New Hampshire, North Carolina, Ohio, Pennsylvania, Tennessee, Texas, Vermont, Washington, Australia, China, Denmark, Estonia, Italy, the Philippines, Poland, Sweden and the United Kingdom. Principal product lines of this group include conveyor ovens, combi-ovens, convection ovens, baking ovens, proofing ovens, deck ovens, speed cooking ovens, hydrovection ovens, ranges, fryers, rethermalizers, steam cooking equipment, food warming equipment, catering equipment, heated cabinets, charbroilers, ventless cooking systems, kitchen ventilation, induction cooking equipment, countertop cooking equipment, toasters, griddles, professional mixers, stainless steel fabrication, custom millwork, professional refrigerators, blast chillers, coldrooms, ice machines, freezers and 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, Desmon, Doyon, Eswood, Firex, Follett, Frifri, Giga, Globe, Goldstein, Holman, Houno, IMC, Induc, Jade, Joe Tap, 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 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, RapidPak, Scanico, Spooner Vicars, Stewart Systems and Thurne, 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, Romania and the United Kingdom. Principal product lines of this group are ranges, cookers, stoves, ovens, refrigerators, dishwashers, microwaves, cooktops, refrigerators, 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, Grange, Heartland, La Cornue, Leisure Sinks, Lynx, Marvel, Mercury, Rangemaster, Rayburn, Redfyre, Sedona, Stanley, TurboChef, U-Line and Viking.

The accounting policies of the segments are the same as those described in the summary of significant accounting policies. The chief operating decision maker evaluates individual segment performance based on operating income.

Net Sales Summary
(dollars in thousands)

| | Three Months Ended | | | | Nine Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | Sep 29, 2018 | | Sep 30, 2017 | | Sep 29, 2018 | | Sep 30, 2017 | |
| | Sales | Percent | Sales | Percent | Sales | Percent | Sales | Percent |
| Business Segments: | | | | | | | | |
| Commercial Foodservice | $471,598 | 66.1 % | $354,828 | 59.8 % | $1,245,619 | 63.3 % | $1,000,830 | 58.8 % |
| Food Processing | 88,257 | 12.4 | 86,871 | 14.7 | 270,478 | 13.8 | 256,515 | 15.1 |
| Residential Kitchen | 153,476 | 21.5 | 151,344 | 25.5 | 450,162 | 22.9 | 445,338 | 26.1 |
| Total | $713,331 | 100.0% | $593,043 | 100.0% | $1,966,259 | 100.0% | $1,702,683 | 100.0% |

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

| | Commercial Foodservice | Food Processing | Residential Kitchen | Corporate and Other(2) | Total |
|---|---|---|---|---|---|
| Three Months Ended September 29, 2018 | | | | | |
| Net sales | $ 471,598 | $ 88,257 | $ 153,476 | $ — | $ 713,331 |
| Income (loss) from operations (3,4) | 102,091 | 13,831 | 9,489 | (17,734 ) | 107,677 |
| Depreciation and amortization expense | 17,558 | 2,209 | 7,606 | 460 | 27,833 |
| Net capital expenditures | 7,665 | 318 | 1,779 | (1,418 ) | 8,344 |
| | | | | | |
| Nine Months Ended September 29, 2018 | | | | | |
| Net sales | $ 1,245,619 | $ 270,478 | $ 450,162 | $ — | $ 1,966,259 |
| Income (loss) from operations (3,4) | 284,645 | 39,157 | 32,598 | (50,421 ) | 305,979 |
| Depreciation and amortization expense | 32,907 | 9,385 | 22,767 | 1,396 | 66,455 |
| Net capital expenditures | 16,371 | 7,274 | 9,421 | (514 ) | 32,552 |
| | | | | | |
| Total assets | $ 2,907,387 | $ 492,151 | $ 1,111,546 | $ 67,525 | $ 4,578,609 |
| | | | | | |
| Three Months Ended September 30, 2017 | | | | | |
| Net sales | $ 354,828 | $ 86,871 | $ 151,344 | $ — | $ 593,043 |
| Income (loss) from operations (3,4,5) | 89,028 | 19,975 | 16,274 | (15,833 ) | 109,444 |
| Depreciation and amortization expense | 6,977 | 2,101 | 7,422 | 461 | 16,961 |
| Net capital expenditures | 7,978 | 484 | 2,813 | 869 | 12,144 |
| | | | | | |
| Nine Months Ended September 30, 2017 | | | | | |
| Net sales | $ 1,000,830 | $ 256,515 | $ 445,338 | $ — | $ 1,702,683 |
| Income (loss) from operations (3,4,5) | 264,576 | 62,163 | 40,242 | (51,272 ) | 315,709 |
| Depreciation and amortization expense | 20,455 | 5,145 | 22,256 | 1,420 | 49,276 |
| Net capital expenditures | 34,727 | 2,430 | 5,756 | (479 ) | 42,434 |
| | | | | | |
| Total assets | $ 1,559,757 | $ 393,272 | $ 1,211,388 | $ 36,726 | $ 3,201,143 |

(1)Non-operating expenses are not allocated to the operating segments. Non-operating expenses consist of interest expense and deferred financing amortization, foreign exchange gains and losses and other income and expense items outside of income from operations.
(2)Includes corporate and other general company assets and operations.
(3)Restructuring expenses are allocated in operating income by segment. See note 16 for further details.
(4)Includes reclassifications due to adoption of ASU No. 2017-07. See note 15 for further details.
(5)Gain on sale of plant allocated to Commercial Foodservice.

Geographic Information

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

| | Sep 29, 2018 | Sep 30, 2017 |
|---|---|---|
| United States and Canada | $268,952 | $212,033 |
| Asia | 12,291 | 15,705 |
| Europe and Middle East | 119,732 | 125,892 |
| Latin America | 654 | 982 |
| Total international | $132,677 | $142,579 |
| | $401,629 | $354,612 |

15) Employee Retirement Plans

(a)Pension Plans

U.S. Plans:

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

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

The company also maintains a retirement benefit agreement with its Chairman ("Chairman Plan"). The retirement benefits are based upon a percentage of the Chairman's final base salary.

Non-U.S. Plans:

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

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

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

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | September 29, 2018 | September 30, 2017 | September 29, 2018 | September 30, 2017 |
| Net Periodic Pension Benefit: | | | | |
| Service cost | $915 | $ 1,019 | $2,849 | $2,979 |
| Interest cost | 7,756 | 8,205 | 24,147 | 23,986 |
| Expected return on assets | (18,062 ) | (17,728 ) | (56,235 ) | (51,825 ) |
| Amortization of net (gain) loss | 967 | 761 | 3,011 | 2,224 |
| Curtailment loss (gain) | 136 | — | 1,100 | — |
| Pension settlement gain | (22 ) | (51 ) | (69 ) | (148 ) |
| | $(8,310 ) | $ (7,794 ) | $(25,197 ) | $(22,784 ) |

The pension costs for all other plans of the company were not material during the period.

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 Condensed Consolidated Statements of Comprehensive Income. The adoption of this standard resulted in a reclassification for the three months period ended September 30, 2017 and nine months period ended September 30, 2017, in which previously reported selling, general and administrative expenses was increased by $8.8 million and $25.8 million, respectively. Net earnings and net earnings per share did not change as a result of the adoption of this standard.

(b)Defined Contribution Plans

The company maintains two separate defined contribution savings plans covering all employees in the United States. These two plans separately cover the union employees at the Elgin, Illinois facility and all other remaining union and non-union employees in the United States. The company also maintains defined contribution plans for its United Kingdom based employees.

16) Restructuring

Commercial Foodservice Equipment Group:

During the fiscal years 2018 and 2017, the company undertook cost reduction initiatives related to the Commercial Foodservice Equipment Group. These actions, which are not material to the company's operations, resulted in a charge of $1.2 million and $3.3 million in the three and nine months ended September 29, 2018 primarily for severance related to headcount reductions and consolidation of manufacturing operations. These expenses are reflected in restructuring expenses in the Condensed Consolidated Statements of Comprehensive Income. The company estimates that these restructuring initiatives will result in future cost savings of approximately $10.0 million annually. The realization of the savings began in 2017 and will continue 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 $0.2 million and $0.6 million in the three and nine months ended September 29, 2018 primarily for severance related to headcount reductions and is reflected in restructuring expenses in the consolidated statements of comprehensive income. 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 2018 and will continue through the year and the restructuring costs in the future are not expected to be significant related to these actions.

Residential Kitchen Equipment Group:

During fiscal years 2018, 2017, 2016 and 2015, the company undertook acquisition integration initiatives related to the AGA Group within the Residential Kitchen Equipment Group. These initiatives included organizational restructuring, headcount reductions and consolidation and disposition of certain facilities and business operations, including the impairment of equipment and facilities. The company recorded additional expense of $10.7 million and $14.4 million in the three and nine months ended September 29, 2018, related to the AGA Group. The cumulative expenses incurred to date for these initiatives is approximately $55.0 million.

During the third quarter, the company undertook additional restructuring efforts for Grange, a non-core business within the Residential Kitchen Group and elected to cease operations. This process is expected to be 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 $8.7 million. Of this amount, $2.0 million primarily relates to charges for fixed assets and $3.2 million for working capital accounts, and $3.5 million for severance obligations and other closure costs.

These expenses are reflected in restructuring expenses in the Condensed Consolidated Statements of Comprehensive Income. The company estimated that the main 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 will continue into fiscal year 2018, primarily related to the 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 year 2018. The lease obligations extend through August 2019.

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 December 30, 2017 | $ 3,698 | $ 1,467 | $157 | $5,322 |
| Expenses | 6,448 | 3,202 | 4,714 | 14,364 |
| Exchange | (60) | (17) | 20 | (57) |
| Payments/Utilization | (6,879) | (3,170) | (3,727) | (13,776) |
| Balance as of September 29, 2018 | $ 3,207 | $ 1,482 | $1,164 | $5,853 |

17) Subsequent Event

On October 1, 2018, the company completed its acquisition of substantially all of the assets of M-TEK Corporation ("M-TEK") for a purchase price of approximately $20.0 million. M-TEK is a leading manufacturer of Modified Atmosphere Packing (MAP) systems for the food processing industry. M-TEK is located in Elgin, Illinois and has annual revenues of approximately $10.0 million.

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

Informational Notes

This report contains forward-looking statements subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. The company cautions readers that these projections are based upon future results or events and are highly dependent upon a variety of important factors which could cause such results or events to differ materially from any forward-looking statements which may be deemed to have been made in this report, or which are otherwise made by or on behalf of the company. Such factors include, but are not limited to, volatility in earnings resulting from goodwill impairment losses which may occur irregularly and in varying amounts; variability in financing costs; quarterly variations in operating results; dependence on key customers; international exposure; foreign exchange and political risks affecting international sales; ability to protect trademarks, copyrights and other intellectual property; changing market conditions; the impact of competitive products and pricing; the timely development and market acceptance of the company's products; the availability and cost of raw materials; and other risks detailed herein and from time-to-time in the company's SEC filings, including the company's 2017 Annual Report on Form 10-K.

Net Sales Summary
(dollars in thousands)

| | Three Months Ended | | | | Nine Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | Sep 29, 2018 | | Sep 30, 2017 | | Sep 29, 2018 | | Sep 30, 2017 | |
| | Sales | Percent | Sales | Percent | Sales | Percent | Sales | Percent |
| Business Segments: | | | | | | | | |
| Commercial Foodservice | $471,598 | 66.1 % | $354,828 | 59.8 % | $1,245,619 | 63.3 % | $1,000,830 | 58.8 % |
| Food Processing | 88,257 | 12.4 | 86,871 | 14.7 | 270,478 | 13.8 | 256,515 | 15.1 |
| Residential Kitchen | 153,476 | 21.5 | 151,344 | 25.5 | 450,162 | 22.9 | 445,338 | 26.1 |
| Total | $713,331 | 100.0% | $593,043 | 100.0% | $1,966,259 | 100.0% | $1,702,683 | 100.0% |

Results of Operations

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

| | Three Months Ended | | Nine Months Ended | |
|---|---|---|---|---|
| | Sep 29, 2018 | Sep 30, 2017 | Sep 29, 2018 | Sep 30, 2017 |
| Net sales | 100.0% | 100.0% | 100.0% | 100.0% |
| Cost of sales | 63.4 | 61.5 | 63.2 | 60.5 |
| Gross profit | 36.6 | 38.5 | 36.8 | 39.5 |
| Selling, general and administrative expenses | 19.8 | 19.4 | 20.3 | 20.6 |
| Restructuring | 1.7 | 0.7 | 0.9 | 1.0 |
| Gain on sale of plant | — | — | — | (0.7 ) |
| Income from operations | 15.1 | 18.4 | 15.6 | 18.6 |
| Interest expense and deferred financing amortization, net | 2.7 | 1.1 | 2.0 | 1.1 |
| Net periodic pension benefit (other than service costs) | (1.3 ) | (1.5 ) | (1.4 ) | (1.5 ) |
| Other expense, net | — | (0.2 ) | — | 0.1 |
| Earnings before income taxes | 13.7 | 19.0 | 15.0 | 18.9 |
| Provision for income taxes | 3.5 | 6.4 | 3.7 | 5.8 |

| | | | | |
|---|---|---|---|---|
| Net earnings | 10.2 % | 12.6 % | 11.3 % | 13.1 % |

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Three Months Ended September 29, 2018 as compared to Three Months Ended September 30, 2017

NET SALES. Net sales for the three months period ended September 29, 2018 increased by $120.3 million or 20.3% to $713.3 million as compared to $593.0 million in the three months period ended September 30, 2017. Net sales increased by $118.0 million, or 19.9%, from the fiscal 2017 acquisitions of QualServ, L2F, Globe and Scanico and the fiscal 2018 acquisitions of Hinds-Bock, Ve.Ma.C, Firex, Josper and Taylor. Excluding acquisitions, net sales increased $2.3 million, or 0.4%, from the prior year. The impact of foreign exchange rates on foreign sales translated into U.S. Dollars for the three months period ended September 29, 2018 decreased net sales by approximately $5.2 million or 0.9%. The adoption of ASC 606 increased net sales by approximately $2.6 million. Excluding the impact of foreign exchange, acquisitions and the adoption of ASC 606, sales increased 0.8% for the year, including a net sales increase of 4.1% at the Commercial Foodservice Equipment Group, a net sales decrease of 14.3% at the Food Processing Equipment Group and a net sales increase of 1.8% at the Residential Kitchen Equipment Group.

- Net sales of the Commercial Foodservice Equipment Group increased by $116.8 million, or 32.9%, to $471.6 million in the three months period ended September 29, 2018, as compared to $354.8 million in the prior year period. Net sales from the acquisitions of QualServ, L2F, Globe, Firex, Josper, and Taylor which were acquired on August 31, 2017, October 6, 2017, October 17, 2017, April 27, 2018, May 10, 2018, and June 22, 2018, respectively, accounted for an increase of $106.3 million during the three months period ended September 29, 2018. Excluding the impact of acquisitions, net sales of the Commercial Foodservice Equipment Group increased $10.5 million, or 3.0%, as compared to the prior year period. Excluding the impact of foreign exchange and acquisitions, net sales increased $14.7 million or 4.1% at the Commercial Foodservice Equipment Group. Sales increased primarily related to several rollouts with our major chain and retail customers. Domestically, the company realized a sales increase of $75.8 million, or 31.2%, to $319.0 million, as compared to $243.2 million in the prior year period. This includes an increase of $58.6 million from recent acquisitions. Excluding the acquisitions, the net increase in domestic sales was $17.2 million, or 7.1%. International sales increased $41.0 million, or 36.7%, to $152.6 million, as compared to $111.6 million in the prior year period. This includes an increase of $47.7 million from the recent acquisitions and decrease of $4.2 million related to the unfavorable impact of exchange rates. Excluding acquisitions and foreign exchange, the net sales decrease in international sales was $2.5 million, or 2.2%.

- Net sales of the Food Processing Equipment Group increased by $1.4 million, or 1.6%, to $88.3 million in the three months period ended September 29, 2018, as compared to $86.9 million in the prior year period. Net sales from the acquisitions of Scanico, Hinds-Bock and Ve.Ma.C, which were acquired on December 7, 2017, February 16, 2018 and April 3, 2018, respectively, accounted for an increase of $11.7 million during the three months period ended September 29, 2018. Excluding the impact of acquisitions, net sales of the Food Processing Equipment Group decreased $10.3 million, or 11.9%. The adoption of ASC 606 increased net sales by approximately $2.6 million. Excluding the impact of foreign exchange, acquisitions and the adoption of ASC 606, net sales decreased 14.3% at the Food Processing Equipment Group. Domestically, the company realized a sales decrease of $4.3 million, or 7.0%, to $57.3 million, as compared to $61.6 million in the prior year period. This includes an increase of $3.2 million from recent acquisitions. Excluding the acquisitions, the net decrease in domestic sales was $7.5 million, or 12.2%. International sales increased $5.7 million, or 22.5%, to $31.0 million, as compared to $25.3 million in the prior year period. This includes $8.5 million from recent acquisitions and decrease of $0.5 million related to the unfavorable impact of exchange rates. Excluding acquisitions and foreign exchange, the net sales decrease in international sales was $2.3 million, or 9.1%. Revenue for the Food Processing Equipment Group has been affected by the timing and deferral of certain large orders which create quarterly volatility for the group.

- Net sales of the Residential Kitchen Equipment Group increased by $2.2 million or 1.5%, to $153.5 million in the three months period ended September 29, 2018, as compared to $151.3 million in the prior year period. Excluding the impact of foreign exchange, net sales increased 1.8% at the Residential Kitchen Equipment Group. Domestically, the company realized a sales increase of $8.3 million, or 9.2%, to $98.1 million, as compared to $89.8 million in the prior year period. Sales at Viking increased by approximately 15% during the quarter. International sales decreased $6.1 million or 9.9% to $55.4 million, as compared to $61.5 million in the prior year quarter. This includes an unfavorable impact of exchange rates of $0.5 million. The sales decrease reflects slower conditions in the UK market impacting the AGA and Rangemaster brands. Additionally, revenues at non-core businesses, acquired in connection with AGA, have been lower and have been impacted by restructuring initiatives.

GROSS PROFIT. Gross profit increased to $261.2 million in the three months period ended September 29, 2018 from $228.5 million in the prior year period, primarily reflecting the impact of increased sales from acquisitions and adoption of ASC 606, offset by the unfavorable impact of foreign exchanges rates of $1.4 million. The gross margin rate was 38.5% in the three months period ended September 30, 2017 as compared to 36.6% in the current year period. The gross margin rate excluding acquisitions, adoption of ASC 606 and the impact of foreign exchange was 39.1%.

- Gross profit at the Commercial Foodservice Equipment Group increased by $35.3 million, or 25.2%, to $175.4 million in the three months period ended September 29, 2018, as compared to $140.1 million in the prior year period. Gross profit from the acquisitions of QualServ, L2F, Globe, Firex, Josper, and Taylor accounted for approximately $25.7 million of the increase in gross profit during the period. Excluding the recent acquisitions, gross profit increased by approximately $9.6 million on higher sales volumes. The impact of foreign exchange rates decreased gross profit by approximately $1.1 million. The gross margin rate decreased to 37.2%, as compared to 39.5% in the prior year period, due to lower margins at recent acquisitions. The gross margin rate excluding acquisitions and the impact of foreign exchange was 40.8%.

- Gross profit at the Food Processing Equipment Group decreased by $4.6 million, or 13.1%, to $30.6 million in the three months period ended September 29, 2018, as compared to $35.2 million in the prior year period. Gross profit from the acquisitions of Scanico, Hinds-Bock and Ve.Ma.C increased gross profit by $3.5 million. The adoption of ASC 606 increased gross profit by approximately $0.8 million. Excluding the recent acquisitions and adoption of ASC 606, gross profit decreased by approximately $8.9 million on lower sales volumes. The impact of foreign exchange rates decreased gross profit by approximately $0.1 million. The gross profit margin rate decreased to 34.7%, as compared to 40.5% in the prior year period, reflecting the impact of lower sales volumes and unfavorable product mix resulting from lesser sales of protein equipment which generally have higher margins.

- Gross profit at the Residential Kitchen Equipment Group increased by $2.6 million, or 4.8%, to $56.6 million in the three months period ended September 29, 2018, as compared to $54.0 million in the prior year period. The impact of foreign exchange rates decreased gross profit by approximately $0.2 million. The gross margin rate increased to 36.9%, as compared to 35.7% in the prior year period, primarily related to higher sales volumes for the domestic premium brands.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Combined selling, general and administrative expenses increased from $114.9 million in the three months period ended September 30, 2017 to $141.4 million in the three months period ended September 29, 2018. As a percentage of net sales, selling, general, and administrative expenses were 19.4% in the three months period ended September 30, 2017, as compared to 19.8% in the three months period ended September 29, 2018.

Selling, general and administrative expenses reflect increased costs of $22.9 million associated with the fiscal 2017 acquisitions of QualServ, L2F, Globe and Scanico and the fiscal 2018 acquisitions of Hinds-Bock, Ve.Ma.C, Firex, Josper, and Taylor, including $8.7 million of intangible amortization expense. Selling, general and administrative expenses increased $3.5 million related to higher non-cash share based compensation, offset by the favorable impact of foreign exchange rates of approximately $1.0 million.

RESTRUCTURING EXPENSES. Restructuring expenses increased $7.9 million from $4.2 million in the three months period ended September 30, 2017 to $12.1 million in the three months period ended September 29, 2018. In the three months period ended September 30, 2017, restructuring expenses included cost reduction initiatives related to the AGA Group. In the three months period ended September 29, 2018, restructuring charges related primarily to exiting operations of a non-core business in the Residential Kitchen Equipment Group, as well as headcount reductions at the Commercial Foodservice Equipment Group and additional cost reduction initiatives related to the AGA Group.

NON-OPERATING EXPENSES. Interest and deferred financing amortization costs were $19.1 million in the three months period ended September 29, 2018, as compared to $6.6 million in the prior year period, reflecting increased interest due to higher interest rates and higher debt balances related to the funding of acquisitions.

INCOME TAXES. A tax provision of $25.1 million, at an effective rate of 25.6%, was recorded during the three months period ended September 29, 2018, as compared to $38.1 million at an effective rate of 33.8%, in the prior year period. 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 the U.S. domestic manufacturers deduction and favorable foreign tax rate differentials. During the three months ended September 30, 2018, we have not recorded any measurement period adjustments to the provisional estimates recorded at December 31, 2017. Final accounting for these impacts is expected in the fourth quarter of 2018, subsequent to the company's completion of 2017 tax returns.

Nine Months Ended September 29, 2018 as compared to Nine Months Ended September 30, 2017

NET SALES. Net sales for the nine months period ended September 29, 2018 increased by $263.6 million, or 15.5%, to $1,966.3 million as compared to $1,702.7 million in the nine months period ended September 30, 2017. Net sales increased by $266.1 million, or 15.6%, 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, and Taylor. Excluding the acquisitions, net sales decreased $2.5 million, or 0.1%, from the prior year. The impact of foreign exchange rates on foreign sales translated into U.S. Dollars for the nine months period ended September 29, 2018 increased net sales by approximately $16.5 million, or 1.0%. The adoption of ASC 606 increased net sales by approximately $17.1 million primarily related to previously recognized revenue on long-term equipment sales contracts at the Food Processing Equipment Group. Excluding the impact of foreign exchange, acquisitions and the adoption of ASC 606, sales decreased 2.1% for the year, including a net sales increase of 2.5% at the Commercial Foodservice Equipment Group, a net sales decrease of 21.4% at the Food Processing Equipment Group and a net sales decrease of 1.3% at the Residential Kitchen Equipment Group.

- Net sales of the Commercial Foodservice Equipment Group increased by $244.8 million, or 24.5%, to $1,245.6 million in the nine months period ended September 29, 2018, as compared to $1,000.8 million in the prior year period. Net sales from the acquisitions of Sveba Dahlen, QualServ, L2F, Globe, Firex, Josper, and Taylor which were acquired on June 30, 2017, August 31, 2017, October 6, 2017, October 17, 2017, April 27, 2018, May 10, 2018, and June 22, 2018, respectively, accounted for an increase of $216.0 million during the nine months period ended September 29, 2018. Excluding the impact of these acquisitions, net sales of the Commercial Foodservice Equipment Group increased $28.8 million, or 2.9%, as compared to the prior year period. Excluding the impact of foreign exchange and acquisitions, net sales increased $24.7 million, or 2.5% at the Commercial Foodservice Equipment Group. Domestically, the company realized a sales increase of $156.6 million, or 22.1%, to $863.6 million, as compared to $707.0 million in the prior year period. This includes an increase of $124.7 million from the recent acquisitions. Excluding the acquisitions, the net increase in domestic sales was $31.9 million, or 4.5%. Domestic sales growth reflects the increase in sales with major chain restaurants and retail customers. International sales increased $88.2 million, or 30.0%, to $382.0 million, as compared to $293.8 million in the prior year period. This includes an increase of $91.3 million from the recent acquisitions and increase of $4.1 million related to the favorable impact of exchange rates. Excluding acquisitions and foreign exchange, the net sales decrease in international sales was $7.2 million, or 2.5%. The decline in international revenues reflects lower sales in Australia and China due to generally slower market conditions and timing of orders from major restaurant chain customers.

- Net sales of the Food Processing Equipment Group increased by $14.0 million, or 5.5%, to $270.5 million in the nine months period ended September 29, 2018, as compared to $256.5 million in the prior year period. Net sales from the acquisitions of Burford, CVP Systems, Scanico, Hinds-Bock and Ve.Ma.C, which were acquired on May 1, 2017, June 30, 2017, December 7, 2017, February 16, 2018 and April 3, 2018, respectively, accounted for an increase of $50.1 million during the nine months period ended September 29, 2018. Excluding the impact of these acquisitions, net sales of the Food Processing Equipment Group decreased $36.1 million, or 14.1%. The adoption of ASC 606 increased net sales by approximately $17.1 million. Excluding the impact of foreign exchange, acquisitions and the adoption of ASC 606, net sales decreased $55.0 million, or 21.4% at the Food Processing Equipment Group. Domestically, the company realized a sales decrease of $5.8 million, or 3.1%, to $183.5 million, as compared to $189.3 million in the prior year period. This includes an increase of $22.8 million from the recent acquisitions. Excluding the acquisitions, the net decrease in domestic sales was $28.6 million, or 15.1%. International sales increased $19.8 million, or 29.5%, to $87.0 million, as compared to $67.2 million in the prior year period. This includes an increase of $27.3 million from the recent acquisitions and an increase of $1.8 million related to the favorable impact of exchange rates. Excluding acquisitions and foreign exchange, the net sales decrease in international sales was $7.5 million, or 11.2%. Revenues for the Food Processing Equipment Group have been affected by the timing and deferral of certain large orders which create quarterly volatility for the group.

- Net sales of the Residential Kitchen Equipment Group increased by $4.9 million, or 1.1%, to $450.2 million in the nine months period ended September 29, 2018, as compared to $445.3 million in the prior year period. Excluding the impact of foreign exchange, net sales decreased $5.7 million, or 1.3% at the Residential Kitchen Equipment Group. Domestically, the company realized a sales increase of $17.1 million, or 6.5%, to $280.1 million, as compared to $263.0 million in the prior year period. Sales at Viking increased by approximately 16% during the year. This increase was offset by the temporary impact of consolidating our premium brands through company owned distribution and canceling certain third party distributors. International sales decreased $12.2 million, or 6.7%, to $170.1 million, as compared to $182.3 million in the prior year quarter. This includes a favorable impact of exchange rates of $10.6 million. The sales decrease reflects slower conditions in the UK market impacting the AGA and Rangemaster brands. Additionally, revenues at non-core businesses, acquired in connection with AGA, have been lower and have been impacted by restructuring initiatives.

GROSS PROFIT. Gross profit increased to $723.6 million in the nine months period ended September 29, 2018 from $672.6 million in the prior year period, reflecting the impact of increased sales from the acquisitions, adoption of ASC 606 and favorable impact of foreign exchange rates of $6.1 million. The gross margin rate decreased from 39.5% in the nine months period ended September 30, 2017 as compared to 36.8% in the current year period. The gross margin rate excluding acquisitions, adoption of ASC 606 and the impact of foreign exchange was 38.8%.

- Gross profit at the Commercial Foodservice Equipment Group increased by $70.3 million, or 17.3%, to $475.5 million in the nine months period ended September 29, 2018, as compared to $405.2 million in the prior year period. Gross profit from the acquisitions of Sveba Dahlen, QualServ, L2F, Globe, Firex, Josper, and Taylor accounted for approximately $51.2 million of the increase in gross profit during the period. Excluding the recent acquisitions, gross profit increased by approximately $19.1 million. The impact of foreign exchange rates increased gross profit by approximately $1.6 million. The gross margin rate decreased to 38.2%, as compared to 40.5% in the prior year period, due to lower margins at recent acquisitions. The gross margin rate excluding acquisitions and the impact of foreign exchange was 41.2%.

- Gross profit at the Food Processing Equipment Group decreased by $12.3 million, or 11.8%, to $91.8 million in the nine months period ended September 29, 2018, as compared to $104.1 million in the prior year period. Gross profit from the acquisitions of Burford, CVP Systems, Scanico, Hinds-Bock and Ve.Ma.C increased gross profit by approximately $17.6 million during the period. The adoption of ASC 606 increased gross profit by approximately $5.0 million. Excluding the recent acquisitions and adoption of ASC 606, gross profit decreased by approximately $34.9 million on lower sales volumes. The impact of foreign exchange rates increased gross profit by approximately $1.1 million. The gross profit margin rate decreased to 33.9%, as compared to 40.6% in the prior year period reflecting the impact of lower volumes and unfavorable product mix resulting from lesser sales of protein equipment which generally have higher margins.

- Gross profit at the Residential Kitchen Equipment Group decreased by $6.9 million, or 4.1%, to $160.0 million in the nine months period ended September 29, 2018, as compared to $166.9 million in the prior year period. The impact of foreign exchange rates increased gross profit by approximately $3.4 million. The gross margin rate decreased to 35.5%, as compared to 37.5% in the prior year period, due primarily to the impact of the domestic distribution changes and sales incentives related to the Viking brand.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Combined selling, general and administrative expenses increased from $351.5 million in the nine months period ended September 30, 2017 to $399.3 million in the nine months period ended September 29, 2018. As a percentage of net sales, selling, general and administrative expenses were 20.6% in the nine months period ended September 30, 2017, as compared to 20.3% in the nine months period ended September 29, 2018.

Selling, general and administrative expenses reflect increased costs of $54.5 million associated with the 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, and Taylor, including $15.6 million of intangible amortization expense. The unfavorable impact of foreign exchange rates increased selling, general and administrative expenses by approximately $4.0 million. Additionally, selling general and administrative expenses decreased $3.6 million related to lower compensation costs, $1.2 million related to lower non-cash share based compensation, and $3.2 million related to lower intangible amortization expense.

RESTRUCTURING EXPENSES. Restructuring expenses increased $0.8 million from $17.4 million in the nine months period ended September 30, 2017 to $18.2 million in the nine months period ended September 29, 2018. In the nine months period ended September 30, 2017, restructuring expenses related cost reduction initiatives related to the AGA Group. Additionally, restructuring charges included cost reduction initiatives primarily related to headcount reductions at the Commercial Foodservice Equipment Group, Food Processing Equipment Group and Residential Kitchen Equipment Group. In the nine months period ended September 29, 2018, restructuring charges related primarily to exiting operations of a non-core business in the Residential Kitchen Equipment Group as well as headcount reductions at the Commercial Foodservice Equipment Group and additional cost reduction initiatives related to the AGA Group.

GAIN ON SALE OF PLANT. In the nine months period ended September 30, 2017 the gain on sale of plant was $12.0 million related to the sale of a manufacturing facility within the Commercial Foodservice Equipment Group, proceeds of which were used to purchase a larger manufacturing facility to gain efficiencies in workflow and allow for future manufacturing consolidation efforts.

NON-OPERATING EXPENSES. Interest and deferred financing amortization costs were $38.4 million in the nine months period ended September 29, 2018, as compared to $18.1 million in the prior year period reflecting higher interest rates and higher debt balances related to the funding of acquisitions.

INCOME TAXES. A tax provision of $73.0 million, at an effective rate of 24.7%, was recorded during the nine months period ended September 29, 2018, as compared to $99.4 million at an effective rate of 30.8%, in the prior year period. 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 a 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". During the nine months ended September 30, 2018, we have not recorded any measurement period adjustments to the provisional estimates recorded at December 31, 2017. Final accounting for these impacts is expected in the fourth quarter of 2018, subsequent to the company's completion of 2017 tax returns.

Financial Condition and Liquidity

During the nine months ended September 29, 2018, cash and cash equivalents decreased by $13.1 million to $76.6 million at September 29, 2018 from $89.7 million at December 30, 2017. Net borrowings increased from $1.0 billion at December 30, 2017 to $2.0 billion at September 29, 2018, primarily as a result of acquisitions.

OPERATING ACTIVITIES. Net cash provided by operating activities was $252.0 million for the nine months ended September 29, 2018, compared to $204.9 million for the nine months ended September 30, 2017.

During the nine months ended September 29, 2018, changes in assets and liabilities reduced operating cash flows by $61.3 million. The changes included an increase in accounts receivable of $38.9 million due to increased sales volumes at the Commercial Foodservice Equipment Group and domestic premium brands within the Residential Kitchen Equipment Group. In addition receivables increased at the Food Processing Equipment Group due to timing of large orders in the nine months ended September 29, 2018. Inventory increased $25.6 million and accounts payable increased by $24.6 million due to increased sales volume and order rates at the Commercial Foodservice Equipment Group and domestic premium brands within the Residential Kitchen Equipment Group. Changes also included a $31.7 million decrease in accrued expenses and other non-current liabilities primarily related to the payment of 2017 annual rebate programs at the Commercial Foodservice Equipment Group and Residential Kitchen Equipment Group and payment of 2017 incentive obligations.

INVESTING ACTIVITIES. During the nine months ended September 29, 2018, net cash used for investing activities amounted to $1.2 billion. This included $1.1 billion for the 2018 acquisitions of Hinds-Bock, JoeTap, Ve.Ma.C, Firex, Josper and Taylor, $5.4 million related to the purchase of a tradename and $32.6 million of additions and upgrades of production equipment and manufacturing facilities.

FINANCING ACTIVITIES. Net cash flows provided by financing activities were $0.9 billion during the nine months ended September 29, 2018. The company’s borrowing activities included $0.9 billion of net proceeds under its $2.5 billion Credit Facility and $7.0 million of net repayments under its foreign banking facilities.

At September 29, 2018, the company was in compliance with all covenants pursuant to its borrowing agreements. The company believes that its current capital resources, including cash and cash equivalents, cash generated from operations, funds available from its Credit Facility and access to the credit and capital markets will be sufficient to finance its operations, debt service obligations, capital expenditures, acquisitions, product development and integration expenditures for the foreseeable future.

Recently Issued Accounting Standards

See Part 1, Notes to Condensed Consolidated Financial Statements, Note 4 - Recent Issued Accounting Standards.
Critical Accounting Policies and Estimates
Management's discussion and analysis of financial condition and results of operations are based upon the company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the company to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses as well as related disclosures. On an ongoing basis, the company evaluates its estimates and judgments based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions and any such differences could be material to our consolidated financial statements. There have been no changes in our critical accounting policies, which include revenue recognition, inventories, goodwill and other intangibles, pensions benefits, and income taxes, as discussed in our Annual Report on Form 10-K for the year ended December 30, 2017 (our “2017 Annual Report on Form 10-K”) other than those described below.
During the nine months period ended September 29, 2018, the company adopted ASC 606, "Revenue from Contracts with Customers". See Part 1, Notes to Condensed Consolidated Financial Statements, Note 5 - Revenue Recognition for additional information on the required disclosures related to the impact of adopting this guidance.

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.

Goodwill Valuations
On an annual basis on the first day of the fourth quarter, or more frequently if triggering events occur, the company compares the estimated fair value to the carrying value to determine if a potential goodwill impairment exists. 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 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.

In performing a quantitative assessment, 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 October 1, 2017 over the Commercial Foodservice Equipment Group and the Food Processing Equipment Group reporting units and determined it is more likely than not that the fair value of our reporting units are greater than the carrying amounts.

We performed a quantitative assessment over the Residential Kitchen Equipment Group as of October 1, 2017 due to weaker than expected revenue performance and a corresponding reduction of future revenue expectations. Based on the results of our annual quantitative assessment conducted on October 1, 2017, we concluded that no impairment existed as the fair value of our Residential Kitchen Equipment Group reporting unit substantially exceeded its carrying value.

In estimating the fair value of specific intangible assets, management relies on a number of factors, including operating results, business plans, economic projections, anticipated future cash flows, comparable transactions and other market data. There are inherent uncertainties related to these factors and management’s judgment in applying them in the impairment tests of goodwill and other intangible assets. 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 quantitative assessment performed as of October 1, 2017, an impairment of our Viking tradename was determined to exist, primarily the result of weaker than expected revenue performance in the current year 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 primarily 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.

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. We performed a sensitivity analysis on the estimated fair values, noting a 1% reduction of forecasted revenues to the Viking trade name projections would result in an impairment charge of approximately $6 million.

- 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. Based on this analysis, we determined a royalty rate of 7% for our Viking trade name. We performed a sensitivity analysis on the estimated fair values for Viking, noting a 50 basis point reduction to the royalty rates would result in an impairment charge of approximately $7 million.

- 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. Based on this analysis, we determined the discount rate to be 11.0% for Viking. We performed a sensitivity analysis on the estimated fair values for Viking, noting a 100 basis point increase to the discount rate would result in an impairment charge of approximately $10 million.

We performed a qualitative assessment as of October 1, 2017 over 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.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

The company is exposed to market risk related to changes in interest rates. The following table summarizes the maturity of the company’s debt obligations:

| Twelve Month Period Ending | Variable Rate Debt |
|---|---|
| 2019 | $3,125 |
| 2020 | 362 |
| 2021 | 1,954,356 |
| 2022 | 325 |
| 2023 and thereafter | 200 |
| | $1,958,368 |

On July 28, 2016, the company entered into an amended and restated five-year $2.5 billion multi-currency senior secured revolving credit agreement (the "Credit Facility"), with the potential under certain circumstances to increase the amount of the Credit Facility to $3.0 billion. As of September 29, 2018, the company had $2.0 billion of borrowings outstanding under the Credit Facility, including $1.9 billion of borrowings in U.S. Dollars, $80.0 million of borrowings denominated in Euro and $6.5 million of borrowings denominated in British Pounds. The company also had $12.3 million in outstanding letters of credit as of September 29, 2018, which reduces the borrowing availability under the Credit Facility. Remaining borrowing availability under this facility was $0.5 billion at September 29, 2018.

At September 29, 2018, borrowings under the Credit Facility accrued interest at a rate of 1.625% above LIBOR per annum or 0.625% above the highest of the prime rate, the federal funds rate plus 0.50% and one month LIBOR plus 1.00%. The average interest rate per annum on the debt under the Credit Facility was equal to 3.81% at the end of the period. The interest rates on borrowings under the Credit Facility may be adjusted quarterly based on the company’s Funded Debt less Unrestricted Cash to Pro Forma EBITDA (the “Leverage Ratio”) on a rolling four-quarter basis. Additionally, a commitment fee based upon the Leverage Ratio is charged on the unused portion of the commitments under the Credit Facility. This variable commitment fee was equal to 0.25% per annum as of September 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 September 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 5.59%.

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

The company uses floating-to-fixed interest rate swap agreements to hedge variable interest rate risk associated with the revolving credit line. At September 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 84 months.

The terms of the Credit Facility limit the ability of the company and its subsidiaries to, with certain exceptions: incur indebtedness; grant liens; engage in certain mergers, consolidations, acquisitions and dispositions; make restricted payments; enter into certain transactions with affiliates; and requires, among other things, the company to satisfy certain financial covenants: (i) a minimum Interest Coverage Ratio (as defined in the Credit Facility) of 3.00 to 1.00 and (ii) a maximum Leverage Ratio of Funded Debt less Unrestricted Cash to Pro Forma EBIDTA (each as defined in the Credit Facility) of 3.50 to 1.00, which may be adjusted to 4.00 to 1.00 for a four consecutive fiscal quarter period in connection with certain qualified acquisitions, subject to the terms and conditions contained in the Credit Facility. The Credit Facility is secured by substantially all of the assets of Middleby Marshall, the company and the company's domestic subsidiaries and is unconditionally guaranteed by, subject to certain exceptions, the company and certain of the company's direct and indirect material foreign and domestic subsidiaries. The Credit Facility contains certain customary events of default, including, but not limited to, the failure to make required payments; bankruptcy and other insolvency events; the failure to perform certain covenants; the material breach of a representation or warranty; non-payment of certain other indebtedness; the entry of undischarged judgments against the company or any subsidiary for the payment of material uninsured amounts; the invalidity of the company guarantee or any subsidiary guaranty; and a change of control of the company. At September 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 September 29, 2018, the fair value of these instruments was an asset of $26.5 million. The change in fair value of these swap agreements in the first nine months of 2018 was a gain of $13.6 million, net of taxes. The potential net loss on fair value for such instruments from a hypothetical 10% adverse change in quoted interest rates would not have a material impact on the company's financial position, results of operations and cash flows.

Foreign Exchange Derivative Financial Instruments

The company uses foreign currency forward, foreign exchange swaps and option purchase and sales contracts to hedge its exposure to changes in foreign currency exchange rates. The company’s primary hedging activities are to mitigate its exposure to changes in exchange rates on intercompany and third party trade receivables and payables. The company does not currently enter into derivative financial instruments for speculative purposes. In managing its foreign currency exposures, the company identifies and aggregates naturally occurring offsetting positions and then hedges residual balance sheet exposures. The potential net loss on fair value for such instruments from a hypothetical 10% adverse change in quoted foreign exchange rates would not have a material impact on the company's financial position, results of operations and cash flows. The fair value of the forward and option contracts was a gain of $0.4 million at the end of the third quarter of 2018.

Item 4. Controls and Procedures

The company maintains disclosure controls and procedures that are designed to ensure that information required to be disclosed in the company's Exchange Act reports is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to the company's management, including its Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

As of September 29, 2018, the company carried out an evaluation, under the supervision and with the participation of the company's management, including the company's Chief Executive Officer and Chief Financial Officer, of the effectiveness of the company's disclosure controls and procedures. Based on the foregoing, the company's Chief Executive Officer and Chief Financial Officer concluded that the company's disclosure controls and procedures were effective as of the end of this period.

During the quarter ended September 29, 2018, there has been no change in the company's internal control over financial reporting that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting.

PART II. OTHER INFORMATION

The company was not required to report the information pursuant to Items 1 through 6 of Part II of Form 10-Q for the nine months ended September 29, 2018, except as follows:

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

c) Issuer Purchases of Equity Securities

| | Total Number of Shares Purchased | Average Price Paid per Share | | Total Number of Shares Purchased as Part of Publicly Announced Plan or Program | Maximum Number of Shares that May Yet be Purchased Under the Plan or Program (1) |
|---|---|---|---|---|---|
| July 1 to July 28, 2018 | — | $ | —— | | 2,373,800 |
| July 29 to August 25, 2018 | — | — | — | | 2,373,800 |
| August 26 to September 29, 2018 | — | — | — | | 2,373,800 |
| Quarter ended September 29, 2018 | — | $ | —— | | 2,373,800 |

(1) On November 7, 2017, the company's Board of Directors resolved to terminate the company's existing share repurchase program, effective as of such date, which was originally adopted in 1998, and approved a new stock repurchase program. This program authorizes the company to repurchase in the aggregate up to 2,500,000 shares of its outstanding common stock. As of September 29, 2018, the total number of shares authorized for repurchase under the program is 2,500,000. As of September 29, 2018, 126,200 shares had been purchased under the 2017 stock repurchase program.

Item 6. Exhibits
Exhibits – The following exhibits are filed herewith:

| | |
|---|---|
| Exhibit 31.1 – | Rule 13a-14(a)/15d -14(a) Certification of the Chief Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 31.2 – | Rule 13a-14(a)/15d -14(a) Certification of the Chief Financial Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| Exhibit 32.1 – | Certification by the Principal Executive Officer of The Middleby Corporation Pursuant to Rule 13A-14(b) under the Exchange Act and Section 906 of the Sarbanes-Oxley Act of 2002(18 U.S.C. 1350). |
| Exhibit 32.2 – | Certification by the Principal Financial Officer of The Middleby Corporation Pursuant to Rule 13A-14(b) under the Exchange Act and Section 906 of the Sarbanes-Oxley Act of 2002(18 U.S.C. 1350). |
| Exhibit 101 – | Financial statements on Form 10-Q for the quarter ended September 29, 2018, filed on November 8, 2018, formatted in Extensive Business Reporting Language (XBRL); (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of earnings, (iii) condensed statements of cash flows, (iv) notes to the condensed consolidated financial statements. |

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

THE MIDDLEBY CORPORATION
(Registrant)

Date: November 8, 2018 By: /s/ Timothy J. FitzGerald
Timothy J. FitzGerald
Vice President,
Chief Financial Officer