**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**Washington, D.C. 20549**

# FORM 10-Q

(Mark One)

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

**For the quarterly period ended July 3, 2021**

or

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

Commission File No. 1-9973

**THE MIDDLEBY CORPORATION**

(Exact name of registrant as specified in its charter)

| | |
|---|---|
| **Delaware** | **36-3352497** |
| (State or other jurisdiction of incorporation or organization) | (IRS Employer Identification Number) |

| | |
|---|---|
| **1400 Toastmaster Drive, Elgin, Illinois** | **60120** |
| (Address of principal executive offices) | (Zip Code) |
| Registrant's telephone number, including area code: | **(847) 741-3300** |

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

| | | | | | |
|---|---|---|---|---|---|
| Large accelerated filer | ☒ | Accelerated filer | ☐ | Non-accelerated filer | ☐ |
| Smaller reporting company | ☐ | Emerging growth company | ☐ | | |

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

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

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

| Title of Each Class | Trading Symbol(s) | Name of Each Exchange on Which Registered |
|---|---|---|
| Common Stock | MIDD | Nasdaq Global Select Market |

As of August 6, 2021, there were 55,626,393 shares of the registrant's common stock outstanding.

**THE MIDDLEBY CORPORATION**

**QUARTER ENDED JULY 3, 2021**

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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 | Jul 3, 2021 | Jan 2, 2021 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 395,562 | $ 268,103 |
| Accounts receivable, net of reserve for doubtful accounts of $18,944 and $19,225 | 422,409 | 363,361 |
| Inventories, net | 608,570 | 540,198 |
| Prepaid expenses and other | 82,908 | 81,049 |
| Prepaid taxes | 16,476 | 17,782 |
| Total current assets | 1,525,925 | 1,270,493 |
| Property, plant and equipment, net of accumulated depreciation of $247,497 and $229,871 | 336,924 | 344,482 |
| Goodwill | 1,932,172 | 1,934,261 |
| Other intangibles, net of amortization of $440,087 and $403,347 | 1,406,629 | 1,450,381 |
| Long-term deferred tax assets | 86,910 | 76,052 |
| Other assets | 134,223 | 126,805 |
| Total assets | $ 5,422,783 | $ 5,202,474 |
| | | |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Current maturities of long-term debt | $ 23,260 | $ 22,944 |
| Accounts payable | 223,425 | 182,773 |
| Accrued expenses | 485,152 | 494,541 |
| Total current liabilities | 731,837 | 700,258 |
| Long-term debt | 1,795,593 | 1,706,652 |
| Long-term deferred tax liability | 131,658 | 147,224 |
| Accrued pension benefits | 450,298 | 469,500 |
| Other non-current liabilities | 187,521 | 202,191 |
| Stockholders' equity: | | |
| Preferred stock, $0.01 par value; nonvoting; 2,000,000 shares authorized; none issued | — | — |
| Common stock, $0.01 par value; 63,654,275 and 63,651,773 shares issued in 2021 and 2020, respectively | 147 | 147 |
| Paid-in capital | 370,816 | 433,308 |
| Treasury stock, at cost; 8,027,327 and 8,013,296 shares in 2021 and 2020 | (539,496) | (537,134) |
| Retained earnings | 2,783,659 | 2,568,756 |
| Accumulated other comprehensive loss | (489,250) | (488,428) |
| Total stockholders' equity | 2,125,876 | 1,976,649 |
| Total liabilities and stockholders' equity | $ 5,422,783 | $ 5,202,474 |

See accompanying notes

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | **Jul 3, 2021** | **Jun 27, 2020** | **Jul 3, 2021** | **Jun 27, 2020** |
| Net sales | $ 808,773 | $ 471,977 | $ 1,566,831 | $ 1,149,436 |
| Cost of sales | 505,047 | 318,851 | 987,231 | 746,120 |
| Gross profit | 303,726 | 153,126 | 579,600 | 403,316 |
| Selling, general and administrative expenses | 165,711 | 111,824 | 320,668 | 255,766 |
| Restructuring expenses | 1,011 | 2,184 | 1,805 | 3,018 |
| Loss (gain) on sale of plant | 287 | — | (763) | — |
| Income from operations | 136,717 | 39,118 | 257,890 | 144,532 |
| Interest expense and deferred financing amortization, net | 14,222 | 21,750 | 30,289 | 37,463 |
| Net periodic pension benefit (other than service costs) | (11,532) | (9,766) | (22,905) | (19,855) |
| Other (income) expense, net | (469) | 382 | (2,160) | 3,708 |
| Earnings before income taxes | 134,496 | 26,752 | 252,666 | 123,216 |
| Provision for income taxes | 13,911 | 5,590 | 42,818 | 28,275 |
| Net earnings | $ 120,585 | $ 21,162 | $ 209,848 | $ 94,941 |
| | | | | |
| Net earnings per share: | | | | |
| Basic | $ 2.18 | $ 0.39 | $ 3.80 | $ 1.72 |
| Diluted | $ 2.13 | $ 0.39 | $ 3.73 | $ 1.72 |
| Weighted average number of shares | | | | |
| Basic | 55,230 | 54,935 | 55,222 | 55,165 |
| Dilutive common stock equivalents | 1,443 | 22 | 1,098 | 12 |
| Diluted | 56,673 | 54,957 | 56,320 | 55,177 |
| Comprehensive income | $ 121,935 | $ 35,862 | $ 209,026 | $ 50,314 |

See accompanying notes

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

| | Common Stock | Paid-in Capital | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Income/(loss) | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| **Balance, April 3, 2021** | **$ 147** | **$ 361,487** | **$ (538,896)** | **$ 2,663,074** | **$ (490,600)** | **$ 1,995,212** |
| Net earnings | — | — | — | 120,585 | — | 120,585 |
| Currency translation adjustments | — | — | — | — | (505) | (505) |
| Change in unrecognized pension benefit costs, net of tax of $254 | — | — | — | — | 1,152 | 1,152 |
| Unrealized gain on interest rate swap, net of tax of $245 | — | — | — | — | 703 | 703 |
| Stock compensation | — | 9,329 | — | — | — | 9,329 |
| Purchase of treasury stock | — | — | (600) | — | — | (600) |
| **Balance, July 3, 2021** | **$ 147** | **$ 370,816** | **$ (539,496)** | **$ 2,783,659** | **$ (489,250)** | **$ 2,125,876** |
| | | | | | | |
| **Balance, January 2, 2021** | **$ 147** | **$ 433,308** | **$ (537,134)** | **$ 2,568,756** | **$ (488,428)** | **$ 1,976,649** |
| Net earnings | — | — | — | 209,848 | — | 209,848 |
| Adoption of ASU 2020-06 [(1)] | — | (79,430) | — | 5,055 | — | (74,375) |
| Currency translation adjustments | — | — | — | — | (11,119) | (11,119) |
| Change in unrecognized pension benefit costs, net of tax of $(623) | — | — | — | — | (2,818) | (2,818) |
| Unrealized gain on interest rate swap, net of tax of $4,572 | — | — | — | — | 13,115 | 13,115 |
| Stock compensation | — | 16,938 | — | — | — | 16,938 |
| Purchase of treasury stock | — | — | (2,362) | — | — | (2,362) |
| **Balance, July 3, 2021** | **$ 147** | **$ 370,816** | **$ (539,496)** | **$ 2,783,659** | **$ (489,250)** | **$ 2,125,876** |

(1) As of January 3, 2021 the company adopted ASU No. 2020-06, A*ccounting for Convertible Instruments and Contracts in an Entity's Own Equity* using the modified retrospective method. The adoption of this guidance resulted in a $79.4 million reduction to paid-in capital, net of tax of $25.5 million, and the recognition of $5.1 million as an adjustment to the opening balance of retained earnings, net of tax of $1.6 million.

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

| | Common Stock | Paid-in Capital | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Income/(loss) | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| **Balance, March 28, 2020** | **$ 145** | **$ 395,442** | **$ (525,862)** | **$ 2,435,241** | **$ (410,260)** | **$ 1,894,706** |
| Net earnings | — | — | — | 21,162 | — | 21,162 |
| Currency translation adjustments | — | — | — | — | 19,852 | 19,852 |
| Change in unrecognized pension benefit costs, net of tax of $(532) | — | — | — | — | (2,491) | (2,491) |
| Unrealized (loss) on interest rate swap, net of tax of $(964) | — | — | — | — | (2,661) | (2,661) |
| Stock compensation | — | 4,963 | — | — | — | 4,963 |
| Stock issuance | — | 6,235 | — | — | — | 6,235 |
| Purchase of treasury stock | — | — | (2,249) | — | — | (2,249) |
| **Balance, June 27, 2020** | **$ 145** | **$ 406,640** | **$ (528,111)** | **$ 2,456,403** | **$ (395,560)** | **$ 1,939,517** |

| | Common Stock | Paid-in Capital | Treasury Stock | Retained Earnings | Accumulated Other Comprehensive Income/(loss) | Total Stockholders' Equity |
|---|---|---|---|---|---|---|
| **Balance, December 28, 2019** | **$ 145** | **$ 387,402** | **$ (451,262)** | **$ 2,361,462** | **$ (350,933)** | **$ 1,946,814** |
| Net earnings | — | — | — | 94,941 | — | 94,941 |
| Currency translation adjustments | — | — | — | — | (29,064) | (29,064) |
| Change in unrecognized pension benefit costs, net of tax of $2,591 | — | — | — | — | 12,317 | 12,317 |
| Unrealized (loss) on interest rate swap, net of tax of $(10,263) | — | — | — | — | (27,880) | (27,880) |
| Stock compensation | — | 9,122 | — | — | — | 9,122 |
| Stock issuance | — | 10,116 | — | — | — | 10,116 |
| Purchase of treasury stock | — | — | (76,849) | — | — | (76,849) |
| **Balance, June 27, 2020** | **$ 145** | **$ 406,640** | **$ (528,111)** | **$ 2,456,403** | **$ (395,560)** | **$ 1,939,517** |

See accompanying notes

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

| | Six Months Ended | |
|---|---|---|
| | **Jul 3, 2021** | **Jun 27, 2020** |
| **Cash flows from operating activities--** | | |
| Net earnings | $ 209,848 | $ 94,941 |
| Adjustments to reconcile net earnings to net cash provided by operating activities-- | | |
| Depreciation and amortization | 60,042 | 54,210 |
| Non-cash share-based compensation | 16,938 | 9,122 |
| Deferred income taxes | (5,997) | 11,975 |
| Net periodic pension benefit (other than service costs) | (22,905) | (19,855) |
| Gain on sale of plant | (763) | — |
| Changes in assets and liabilities, net of acquisitions | | |
| Accounts receivable, net | (63,502) | 137,208 |
| Inventories, net | (68,049) | (11,398) |
| Prepaid expenses and other assets | 11,702 | 13,707 |
| Accounts payable | 41,521 | (54,169) |
| Accrued expenses and other liabilities | (6,454) | (70,981) |
| Net cash provided by operating activities | 172,381 | 164,760 |
| **Cash flows from investing activities--** | | |
| Net additions to property, plant and equipment | (19,311) | (22,712) |
| Proceeds on sale of property, plant and equipment | 5,948 | 9,381 |
| Acquisitions, net of cash acquired | (10,859) | (29,850) |
| Net cash used in investing activities | (24,222) | (43,181) |
| **Cash flows from financing activities--** | | |
| Proceeds under Credit Facility | 18,995 | 2,547,306 |
| Repayments under Credit Facility | (29,870) | (2,025,355) |
| Net proceeds under international credit facilities | 169 | 2,989 |
| Net repayments under other debt arrangement | (148) | (23) |
| Payments of deferred purchase price | (5,515) | (2,145) |
| Repurchase of treasury stock | (2,362) | (76,849) |
| Debt issuance costs on Credit Facility | — | (7,592) |
| Net cash (used in) provided by financing activities | (18,731) | 438,331 |
| **Effect of exchange rates on cash and cash equivalents** | (1,969) | (4,690) |
| **Changes in cash and cash equivalents--** | | |
| Net increase in cash and cash equivalents | 127,459 | 555,220 |
| Cash and cash equivalents at beginning of year | 268,103 | 94,500 |
| Cash and cash equivalents at end of period | $ 395,562 | $ 649,720 |

See accompanying notes

**THE MIDDLEBY CORPORATION**
**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS**
**JULY 3, 2021**
**(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 2020 Form 10-K. The company’s interim results are not necessarily indicative of future full year results for the fiscal year 2021.

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 July 3, 2021 and January 2, 2021, the results of operations for the three and six months ended July 3, 2021 and June 27, 2020, cash flows for the six months ended July 3, 2021 and June 27, 2020 and statement of stockholders' equity for the three and six months ended July 3, 2021 and June 27, 2020.

*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 $9.3 million and $5.0 million for the three months period ended July 3, 2021 and June 27, 2020, respectively. Non-cash share-based compensation expense was $16.9 million and $9.1 million for the six months period ended July 3, 2021 and June 27, 2020, respectively.

### c) Income Taxes

A tax provision of $13.9 million, at an effective rate of 10.3% was recorded during the three months period ended July 3, 2021, as compared to a $5.6 million tax provision at an effective rate of 20.9% in the prior year period. A tax provision of $42.8 million, at an effective rate of 16.9%, was recorded during the six months period ended July 3, 2021, as compared to a $28.3 million tax provision at a 22.9% effective rate in the prior year period.

In the three months period ended July 3, 2021 the Company recorded several discrete tax benefits, including a deferred tax benefit for the enacted future UK tax rate change from 19% to 25% and tax benefits for amended U.S. tax returns to retroactively apply the GILTI high-tax exception election back to 2018 and to claim additional tax credits in 2017. The discrete tax items caused a reduction in the effective rate from the comparable prior year periods. When excluding the discrete tax adjustments, the 2021 rate was approximately 24.5%.

**d) Fair Value Measures**

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

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

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

| | Fair Value Level 1 | Fair Value Level 2 | Fair Value Level 3 | Total |
|---|---|---|---|---|
| As of July 3, 2021 | | | | |
| Financial Assets: | | | | |
| Interest rate swaps | $ — | $ 1,188 | $ — | $ 1,188 |
| | | | | |
| Financial Liabilities: | | | | |
| Interest rate swaps | $ — | $ 34,594 | $ — | $ 34,594 |
| Contingent consideration | $ — | $ — | $ 25,231 | $ 25,231 |
| Foreign exchange derivative contracts | $ — | $ 325 | $ — | $ 325 |
| | | | | |
| As of January 2, 2021 | | | | |
| Financial Liabilities: | | | | |
| Interest rate swaps | $ — | $ 51,093 | $ — | $ 51,093 |
| Contingent consideration | $ — | $ — | $ 25,558 | $ 25,558 |
| Foreign exchange derivative contracts | $ — | $ 2,191 | $ — | $ 2,191 |

The contingent consideration as of July 3, 2021 and January 2, 2021, relates to the earnout provisions recorded in conjunction with various purchase agreements. The earnout provisions associated with these acquisitions are based upon performance measurements related to sales and earnings, as defined in the respective purchase agreement. On a quarterly basis, the company assesses the projected results for each acquired business in comparison to the earnout targets and adjusts the liability accordingly.

**e) Consolidated Statements of Cash Flows**

Cash paid for interest was $26.8 million and $32.9 million for the six months ended July 3, 2021 and June 27, 2020, respectively. Cash payments totaling $42.8 million and $8.0 million were made for income taxes for the six months ended July 3, 2021 and June 27, 2020, respectively.

### f) Earnings Per Share

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

The company’s potentially dilutive securities consist of shares issuable on vesting of restricted stock grants computed using the treasury method and amounted to 12,656 and 22,488 for the three months ended July 3, 2021, and June 27, 2020, respectively. The company’s potentially dilutive securities consist of shares issuable on vesting of restricted stock grants computed using the treasury method and amounted to 10,463 and 12,261 for the six months ended July 3, 2021, and June 27, 2020, respectively. For the six months ended July 3, 2021, the average market price of the company's common stock exceeded the exercise price of the Convertible Notes (as defined below) resulting in 1,430,308 and 1,087,320 diluted common stock equivalents to be included in the diluted net earnings per share for the three and six months ended July 3, 2021, respectively. There have been no conversions to date. See Note 12, Financing Arrangements for further details on the Convertible Notes. There were no anti-dilutive restricted stock grants excluded from common stock equivalents in any period presented.

## 2) Acquisitions and Purchase Accounting

The company accounts for all business combinations using the acquisition method to record a new cost basis for the assets acquired and liabilities assumed. The difference between the purchase price and the fair value of the assets acquired and liabilities assumed has been recorded as goodwill in the financial statements. The company recognizes identifiable intangible assets, primarily trade names and customer relationships, at their fair value using a discounted cash flow model. The significant assumptions used to estimate the value of the intangible assets include revenue growth rates, projected profit margins, discount rates, royalty rates, and customer attrition rates. These significant assumptions are forward-looking and could be affected by future economic and market conditions. The results of operations are reflected in the consolidated financial statements of the company from the dates of acquisition.

The company completed no acquisitions that were accounted for as business combinations during the six months ended July 3, 2021.

*2020 Acquisitions*

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

| | Preliminary Opening Balance Sheet | Preliminary Measurement Period Adjustments | Adjusted Opening Balance Sheet |
|---|---|---|---|
| Cash | $ 14,647 | $ — | $ 14,647 |
| Current assets | 43,670 | (13,391) | 30,279 |
| Property, plant and equipment | 3,014 | (241) | 2,773 |
| Goodwill | 55,335 | 4,124 | 59,459 |
| Other intangibles | 63,201 | (4,375) | 58,826 |
| Other assets | 6,121 | 52 | 6,173 |
| Current liabilities | (54,478) | 13,040 | (41,438) |
| Long-term deferred tax liability | (123) | — | (123) |
| Other non-current liabilities | (21,902) | 791 | (21,111) |
| Consideration paid at closing | $ 109,485 | $ — | $ 109,485 |
| Deferred payments | 8,666 | (468) | 8,198 |
| Contingent consideration | 16,144 | (836) | 15,308 |
| Net assets acquired and liabilities assumed | $ 134,295 | $ (1,304) | $ 132,991 |

The long-term deferred tax liability amounted to $0.1 million and is related to the difference between the book and tax basis on other assets and liability accounts.

The goodwill and $15.7 million of other intangibles associated with the trade names are subject to the non-amortization provisions of ASC 350. Other intangibles also include $10.6 million allocated to customer relationships, $26.2 million allocated to developed technology and $6.3 million allocated to backlog, which are being amortized over periods of 6 to 9 years, 6 to 12 years, and 3 to 9 months, respectively. Goodwill of $59.5 million and other intangibles of $58.8 million of the companies are allocated to the Commercial Foodservice Equipment Group for segment reporting purposes. Of these assets, goodwill of $24.4 million and intangibles of $58.5 million are expected to be deductible for tax purposes.

Several purchase agreements include deferred payment and earnout provisions providing for contingent payments due to the sellers to the extent certain financial targets are exceeded. The deferred payments are payable between 2021 and 2022. The contractual obligations associated with the deferred payments on the acquisition date amount to $8.2 million. The earnouts are payable between 2021 and 2023, if the company exceeds certain sales and earnings targets. The contractual obligations associated with the contingent earnout provisions recognized on the acquisition date amount to $15.3 million.

The company believes that information gathered to date provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed, but the company is waiting for additional information necessary to finalize those fair values for various 2020 acquisitions. Thus, the provisional measurements of fair value set forth above are subject to change. The company expects to complete the purchase price allocation as soon as practicable but no later than one year from the acquisition date.

*Pro Forma Financial Information*

In accordance with ASC 805 *Business Combinations*, the following unaudited pro forma results of operations for the six months ended July 3, 2021 and June 27, 2020, assumes the 2020 acquisitions described above were completed on December 29, 2019 (first day of fiscal year 2020). The following pro forma results include adjustments to reflect amortization of intangibles associated with the acquisition and the effects of adjustments made to the carrying value of certain assets (in thousands, except per share data):

| | Six Months Ended | |
|---|---|---|
| | July 3, 2021 | June 27, 2020 |
| Net sales | $ 1,566,831 | $ 1,172,900 |
| Net earnings | 213,641 | 88,341 |
| | | |
| Net earnings per share: | | |
| Basic | $ 3.87 | $ 1.60 |
| Diluted | $ 3.79 | $ 1.60 |

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 August 2020, the FASB issued ASU No. 2020-06, “Debt-Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging-Contracts in Entity’s Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity”, which simplifies the accounting for convertible instruments by eliminating the requirement to separate embedded conversion features from the host contract when the conversion features are not required to be accounted for as derivatives under Topic 815, Derivatives and Hedging, or that do not result in substantial premiums accounted for as paid-in capital. By removing the separation model, a convertible debt instrument will be reported as a single liability instrument with no separate accounting for embedded conversion features. This new standard also removes certain settlement conditions that are required for contracts to qualify for equity classification and simplifies the diluted earnings per share calculations by requiring that an entity use the if-converted method and that the effect of potential share settlement be included in diluted earnings per share calculations. Effective January 3, 2021, the company early adopted ASU 2020-06 using the modified retrospective approach. Adoption of the new standard resulted in an increase to the opening balance of retained earnings of $5.1 million, a decrease to additional paid-in capital of $79.4 million, and an increase to convertible senior notes of $98.4 million. In addition, the company ceased recording non-cash interest expense associated with amortization of the debt discount and calculates earnings per share using the if-converted method to the extent those shares are not anti-dilutive.

In December 2019, the FASB issued ASU 2019-12, "Simplifying the Accounting for Income Taxes (Topic 740)", which removes certain exceptions related to the approach for intra-period tax allocation, the methodology for calculating income taxes in an interim period and the recognition of deferred tax liabilities for outside basis differences. This guidance also clarifies and simplifies other areas of ASC 740. This guidance is effective for annual reporting periods, and interim periods within those reporting periods, beginning after December 15, 2020 with early adoption permitted. Certain amendments in this update must be applied on a prospective basis, certain amendments must be applied on a retrospective basis, and certain amendments must be applied on a modified retrospective basis through a cumulative-effect adjustment to retained earnings in the period of adoption. The company adopted this guidance on January 3, 2021, and it did not have a material impact on the company's Consolidated Financial Statements upon adoption.

*Accounting Pronouncements - To be adopted*

In March 2020, the FASB issued ASU 2020-04, "Reference Rate Reform (Topic 848) - Facilitation of the Effects of Reference Rate Reform on Financial Reporting". Subject to meeting certain criteria, ASU 2020-04 provides optional expedients and exceptions to applying contract modification accounting under existing generally accepted accounting principles, for contracts that are modified to address the expected phase out of the London Inter-bank Offered Rate (“LIBOR”) by the end of 2021. Some of the Company’s contracts with respect to its borrowings and interest rate swap contracts already contain comparable alternative reference rates that would automatically take effect upon the phasing out of LIBOR, while for others, the company anticipates negotiating comparable replacement rates with its counterparties. In January 2021, the FASB issued ASU 2021-01 to provide supplemental guidance and to further clarify the scope. This guidance is effective for all entities from the beginning of an interim period that includes the issuance date of the ASU. An entity may elect to apply the amendments prospectively through December 31, 2022. The company is currently evaluating the impacts the adoption of this guidance will have on its Consolidated Financial Statements and disclosures.

On May 3, 2021, the FASB issued ASU 2021-04, Earnings Per Share (Topic 260), Debt—Modifications and Extinguishments (Subtopic 470-50), Compensation—Stock Compensation (Topic 718), and Derivatives and Hedging—Contracts in Entity’s Own Equity (Subtopic 815-40): Issuer’s Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options. This new standard provides clarification and reduces diversity in an issuer’s accounting for modifications or exchanges of freestanding equity-classified written call options (such as warrants) that remain equity classified after modification or exchange. This guidance is effective for fiscal years beginning after December 15, 2021, including interim periods within those fiscal years. Early adoption is permitted, including adoption in an interim period. The company is currently evaluating the impacts the adoption of this guidance will have on its Consolidated Financial Statements and disclosures.

## 5) Revenue Recognition

*Disaggregation of Revenue*

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

| | Commercial Foodservice | Food Processing | Residential Kitchen | Total |
|---|---|---|---|---|
| **Three Months Ended July 3, 2021** | | | | |
| United States and Canada | $ 359,026 | $ 95,484 | $ 113,334 | $ 567,844 |
| Asia | 47,641 | 2,453 | 1,858 | 51,952 |
| Europe and Middle East | 90,751 | 21,750 | 53,205 | 165,706 |
| Latin America | 11,360 | 10,321 | 1,590 | 23,271 |
| Total | $ 508,778 | $ 130,008 | $ 169,987 | $ 808,773 |
| | | | | |
| **Six Months Ended July 3, 2021** | | | | |
| United States and Canada | $ 697,863 | $ 175,134 | $ 221,908 | $ 1,094,905 |
| Asia | 97,360 | 6,456 | 4,890 | 108,706 |
| Europe and Middle East | 172,768 | 42,175 | 105,049 | 319,992 |
| Latin America | 21,942 | 18,737 | 2,549 | 43,228 |
| Total | $ 989,933 | $ 242,502 | $ 334,396 | $ 1,566,831 |
| | | | | |
| **Three Months Ended June 27, 2020** | | | | |
| United States and Canada | $ 195,899 | $ 72,762 | $ 81,724 | $ 350,385 |
| Asia | 27,548 | 6,110 | 900 | 34,558 |
| Europe and Middle East | 39,852 | 19,104 | 21,506 | 80,462 |
| Latin America | 4,201 | 3,587 | (1,216) | 6,572 |
| Total | $ 267,500 | $ 101,563 | $ 102,914 | $ 471,977 |
| | | | | |
| **Six Months Ended June 27, 2020** | | | | |
| United States and Canada | $ 502,409 | $ 145,644 | $ 166,798 | $ 814,851 |
| Asia | 65,072 | 13,749 | 1,878 | 80,699 |
| Europe and Middle East | 119,584 | 38,451 | 64,971 | 223,006 |
| Latin America | 23,559 | 7,985 | (664) | 30,880 |
| Total | $ 710,624 | $ 205,829 | $ 232,983 | $ 1,149,436 |

*Contract Balances*

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

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

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

| | Jul 3, 2021 | Jan 2, 2021 |
|---|---|---|
| Contract assets | $ 23,356 | $ 20,328 |
| Contract liabilities | $ 111,657 | $ 93,871 |
| Non-current contract liabilities | $ 12,697 | $ 13,523 |

During the six months period ended July 3, 2021, the company reclassified $11.3 million to receivables, which was included in the contract asset balance at the beginning of the period. During the six months period ended July 3, 2021, the company recognized revenue of $68.5 million which was included in the contract liability balance at the beginning of the period. Additions to contract liabilities representing amounts billed to clients in excess of revenue recognized to date were $98.5 million during the six months period ended July 3, 2021. Substantially, all of the company's outstanding performance obligations will be satisfied within 12 to 36 months. There were no contract asset impairments during the six months period ended July 3, 2021.

## 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 January 2, 2021 | $ (49,961) | $ (400,919) | $ (37,548) | $ (488,428) |
| Other comprehensive income before reclassification | (11,119) | (2,818) | 2,885 | (11,052) |
| Amounts reclassified from accumulated other comprehensive income | — | — | 10,230 | 10,230 |
| Net current-period other comprehensive income | $ (11,119) | $ (2,818) | $ 13,115 | $ (822) |
| Balance as of July 3, 2021 | $ (61,080) | $ (403,737) | $ (24,433) | $ (489,250) |
| | | | | |
| Balance as of December 28, 2019 | $ (105,705) | $ (228,336) | $ (16,892) | $ (350,933) |
| Other comprehensive income before reclassification | (29,064) | 12,317 | (33,141) | (49,888) |
| Amounts reclassified from accumulated other comprehensive income | — | — | 5,261 | 5,261 |
| Net current-period other comprehensive income | $ (29,064) | $ 12,317 | $ (27,880) | $ (44,627) |
| Balance as of June 27, 2020 | $ (134,769) | $ (216,019) | $ (44,772) | $ (395,560) |

(1) As of July 3, 2021, pension and interest rate swap amounts are net of tax of $(89.7) million and $(8.5) million, respectively. During the six months ended July 3, 2021, the adjustments to pension benefit costs and unrealized gain/(loss) interest rate swap were net of tax of $(0.6) million and $4.6 million, respectively. As of June 27, 2020 pension and interest rate swap amounts are net of tax of $(46.0) million and $(16.2) million, respectively. During the six months ended June 27, 2020, the adjustments to pension benefit costs and unrealized gain/(loss) interest rate swap were net of tax of $2.6 million and $(10.3) million, respectively.

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | Jul 3, 2021 | Jun 27, 2020 | Jul 3, 2021 | Jun 27, 2020 |
| Net earnings | $ 120,585 | $ 21,162 | $ 209,848 | $ 94,941 |
| Currency translation adjustment | (505) | 19,852 | (11,119) | (29,064) |
| Pension liability adjustment, net of tax | 1,152 | (2,491) | (2,818) | 12,317 |
| Unrealized gain (loss) on interest rate swaps, net of tax | 703 | (2,661) | 13,115 | (27,880) |
| Comprehensive income | $ 121,935 | $ 35,862 | $ 209,026 | $ 50,314 |

## 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 July 3, 2021 and January 2, 2021 are as follows (in thousands):

| | Jul 3, 2021 | Jan 2, 2021 |
|---|---|---|
| Raw materials and parts | $ 323,211 | $ 263,200 |
| Work-in-process | 61,029 | 55,104 |
| Finished goods | 224,330 | 221,894 |
| | $ 608,570 | $ 540,198 |

## 8) Goodwill

Changes in the carrying amount of goodwill for the six months ended July 3, 2021 are as follows (in thousands):

| | Commercial Foodservice | Food Processing | Residential Kitchen | Total |
|---|---|---|---|---|
| Balance as of January 2, 2021 | $ 1,228,436 | $ 255,798 | $ 450,027 | $ 1,934,261 |
| Measurement period adjustments to goodwill acquired in prior year | 2,686 | — | — | 2,686 |
| Exchange effect | (3,921) | (2,474) | 1,620 | (4,775) |
| Balance as of July 3, 2021 | $ 1,227,201 | $ 253,324 | $ 451,647 | $ 1,932,172 |

The annual impairment assessment for goodwill and indefinite-lived intangible assets is performed as of the first day of the fourth quarter and since that assessment the company does not believe there are any indicators of impairment requiring subsequent analysis. This is supported by the review of order rates, backlog levels and financial performance across business segments.

## 9) Intangibles

Intangible assets consist of the following (in thousands):

| | July 3, 2021 | | | January 2, 2021 | | |
|---|---|---|---|---|---|---|
| | 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 | 8.2 | $ 731,873 | $ (377,446) | 8.5 | $ 735,264 | $ (347,029) |
| Backlog | 0.0 | 35,578 | (35,578) | 0.3 | 34,729 | (31,924) |
| Developed technology | 9.3 | 62,391 | (27,063) | 10.0 | 56,931 | (24,394) |
| | | $ 829,842 | $ (440,087) | | $ 826,924 | $ (403,347) |
| Indefinite-lived assets: | | | | | | |
| Trademarks and tradenames | | $ 1,016,874 | | | $ 1,026,804 | |

The aggregate intangible amortization expense was $17.9 million and $17.6 million for the three months period ended July 3, 2021 and June 27, 2020, respectively. The aggregate intangible amortization expense was $36.7 million and $34.5 million for the six months period ended July 3, 2021 and June 27, 2020, respectively. The estimated future amortization expense of intangible assets is as follows (in thousands):

| Twelve Month Period coinciding with the end of the company's Fiscal Second Quarter | Amortization Expense |
|---|---|
| 2022 | $ 64,709 |
| 2023 | 59,217 |
| 2024 | 51,782 |
| 2025 | 40,164 |
| 2026 | 37,389 |
| Thereafter | 136,494 |
| | $ 389,755 |

## 10) Accrued Expenses

Accrued expenses consist of the following (in thousands):

| | Jul 3, 2021 | Jan 2, 2021 |
|---|---|---|
| Contract liabilities | $ 111,657 | $ 93,871 |
| Accrued payroll and related expenses | 91,512 | 93,926 |
| Accrued warranty | 76,372 | 69,667 |
| Accrued customer rebates | 43,010 | 43,703 |
| Accrued short-term leases | 22,249 | 22,493 |
| Accrued sales and other tax | 17,185 | 22,030 |
| Accrued professional fees | 17,112 | 12,133 |
| Accrued agent commission | 12,780 | 11,105 |
| Accrued product liability and workers compensation | 11,275 | 12,909 |
| Accrued interest rate swaps | 9,823 | 14,075 |
| Accrued liabilities held for sale | — | 22,313 |
| Other accrued expenses | 72,177 | 76,316 |
| | $ 485,152 | $ 494,541 |

## 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):

| | Six Months Ended Jul 3, 2021 |
|---|---|
| Balance as of January 2, 2021 | $ 69,667 |
| Warranty expense | 36,536 |
| Warranty claims | (29,831) |
| Balance as of July 3, 2021 | $ 76,372 |

## 12) Financing Arrangements

| | Jul 3, 2021 | Jan 2, 2021 |
|---|---|---|
| | (in thousands) | |
| Senior secured revolving credit line | $ 753,500 | $ 755,000 |
| Term loan facility | 326,563 | 335,938 |
| Convertible senior notes | 732,961 | 632,847 |
| Foreign loans | 4,587 | 4,421 |
| Other debt arrangement | 1,242 | 1,390 |
| Total debt | 1,818,853 | 1,729,596 |
| Less: Current maturities of long-term debt | 23,260 | 22,944 |
| Long-term debt | $ 1,795,593 | $ 1,706,652 |

*Credit Facility*

On January 31, 2020, the company entered into an amended and restated five-year, $3.5 billion multi-currency senior secured credit agreement (as amended as described below, the "Credit Facility"). On August 21, 2020, the company entered into an amendment to the Credit Facility, prepaying $400.0 million aggregate principal amount of its term loan obligations owed. The Credit Facility, as amended, is in an aggregate principal amount of $3.1 billion, consisting of (i) a $350 million term loan facility and (ii) a $2.75 billion multi-currency revolving credit facility. The Credit Facility matures on January 31, 2025. The term loan facility amortizes in equal quarterly installments due on the last day of each fiscal quarter in an aggregate annual amount equal to 2.50% of the original aggregate principal amount of the term loan facility, with the balance, plus any accrued interest, due and payable on January 31, 2025. As of July 3, 2021, the company had $1.1 billion of borrowings outstanding under the Credit Facility, including $753.5 million of borrowings in U.S. Dollars and $326.6 million outstanding under the term loan. The company also had $2.4 million in outstanding letters of credit as of July 3, 2021, which reduces the borrowing availability under the Credit Facility.

At July 3, 2021, borrowings under the Credit Facility accrued interest at a rate of 1.625% above LIBOR per annum or 1.00% above the highest of the prime rate, the federal funds rate plus 0.50% and one month LIBOR plus 1.00%. The average interest rate per annum, inclusive of hedging instruments, on the debt under the Credit Facility was equal to 3.62% 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 July 3, 2021. The term loan facility had an average interest rate per annum, inclusive of hedging instruments, of 2.90% as of July 3, 2021.

In addition, the company has other international credit facilities to fund working capital needs outside the United States. At July 3, 2021, these foreign credit facilities amounted to $4.6 million in U.S. Dollars with a weighted average per annum interest rate of approximately 7.29%.

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

| | Jul 3, 2021 | | Jan 2, 2021 | |
|---|---|---|---|---|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Total debt excluding convertible senior notes | $ 1,085,892 | $ 1,085,892 | $ 1,096,749 | $ 1,096,749 |

The company uses floating-to-fixed interest rate swap agreements to hedge variable interest rate risk associated with the Credit Facility. At July 3, 2021, the company had outstanding floating-to-fixed interest rate swaps totaling $260.0 million notional amount carrying an average interest rate of 2.36% maturing in less than 12 months and $802.0 million notional amount carrying an average interest rate of 1.91% that mature in more than 12 months but less than 68 months.

The company believes that its current capital resources, including cash and cash equivalents, cash expected to be generated from operation, 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, as amended, limit the ability of the company and its subsidiaries to, with certain exceptions: incur indebtedness; grant liens; engage in certain mergers, consolidations, acquisitions and dispositions; make restricted payments; enter into certain transactions with affiliates; and requires, among other things, the company to satisfy certain financial covenants: (i) a minimum Interest Coverage Ratio (as defined in the Credit Facility) of 3.00 to 1.00, (ii) a maximum Total Leverage Ratio of Funded Debt less Unrestricted Cash to Pro Forma EBITDA (each as defined in the Credit Facility) of 5.50 to 1.00, and (iii) a maximum Secured Leverage Ratio of Funded Debt less Unrestricted Cash to Pro Forma EBITDA (each as defined in the Credit Facility) of 3.50 to 1.00; which may be adjusted to 4.00 to 1.00 for a four consecutive fiscal quarter period in connection with certain qualified acquisitions, subject to the terms and conditions contained in the Credit Facility. 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 July 3, 2021, the company was in compliance with all covenants pursuant to its borrowing agreements.

*Convertible Notes*

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

| | Jul 3, 2021 | Jan 2, 2021 |
|---|---|---|
| | (in thousands) | |
| **Principal amounts:** | | |
| Principal | $ 747,500 | $ 747,500 |
| Unamortized debt discounts | — | (98,358) |
| Unamortized issuance costs | (14,539) | (16,295) |
| Net carrying amount | $ 732,961 | $ 632,847 |

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

| | Three Months Ended Jul 3, 2021 | Six Months Ended Jul 3, 2021 |
|---|---|---|
| Contractual interest expense | $ 1,869 | $ 3,759 |
| Interest cost related to amortization of issuance costs | 873 | 1,756 |
| Total interest expense | $ 2,742 | $ 5,515 |

On August 21, 2020, the company issued $747.5 million aggregate principal amount of 1.00% Convertible Senior Notes maturing on September 1, 2025 (the "Convertible Notes") in a private offering pursuant to an indenture, dated August 21, 2020 (the "Indenture"), between the company and U.S. Bank National Association, as trustee. The Convertible Notes are general unsecured obligations of the company and bear interest semi-annually in arrears. The estimated fair value of the Convertible Notes was $1.1 billion as of July 3, 2021 and was determined through consideration of quoted market prices. The fair value is classified as Level 2, as defined in Note 1 (d), Fair Value Measurements of this Quarterly Report on Form 10-Q. The if-converted value of the Convertible Notes exceeded their respective principal value by $262.4 million as of July 3, 2021.

On January 3, 2021, the company adopted ASU 2020-06, “Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity", using the modified retrospective method. Prior to January 3, 2021, the Company separated the Convertible Notes into liability and equity components and the carrying amount of the equity component was recorded as a debt discount and amortized to interest expense. As a result of the adoption of ASU 2020-06, the Convertible Notes are accounted for as a single liability and therefore the company no longer recognized any amortization of debt discounts as interest expense. The annual effective interest rate of the Convertible Notes following adoption of ASU 2020-06 is 1.5%.

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

The Convertible Notes will mature on September 1, 2025 unless they are redeemed, repurchased or converted prior to such date in accordance with their terms. The company may settle the conversions of the Convertible Notes in cash, shares of the company's common stock or any combination thereof at its election. The number of shares of the company's common stock issuable at the conversion price of $128.62 per share is expected to be 5.8 million shares. As of July 3, 2021, there have been no conversions to date. For the six months ended July 3, 2021, the average market price of the company's common stock exceeded the exercise price of the Convertible Notes resulting in 1,087,320 diluted common stock equivalents to be included in the diluted net earnings per share for the period.

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

*Capped Call Transactions*

In conjunction with the pricing of the Convertible Notes, the company entered into privately negotiated capped call transactions in the aggregate amount of $104.7 million ("Capped Call Transactions"). The Capped Call Transactions are expected generally to reduce the potential dilution and/or offset the cash payments the company is required to make in excess of the principal amount of the Convertible Notes upon conversion of the Convertible Notes in the event that the market price per share of the company's common stock is greater than the strike price of the Capped Call Transactions (which initially corresponds to the initial conversion price of the Convertible Notes and is subject to certain adjustments under the terms of the Capped Call Transactions), with such reduction and/or offset subject to a cap based on the cap price of the Capped Call Transactions. Under the Capped Call Transactions, the number of shares of common stock issuable at the conversion price of $207.93 is expected to be 3.6 million shares. As of July 3, 2021, there have been no conversions to date. The Capped Call Transactions cover the number of shares of the company's common stock underlying the Convertible Notes, subject to anti-dilution adjustments substantially similar to those applicable to the Convertible Notes.

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

## 13) Financial Instruments

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

*Foreign Exchange*: The company uses foreign currency forward, foreign exchange swaps and option purchase and sales contracts to hedge its exposure to changes in foreign currency exchange rates. The company’s primary hedging activities are to mitigate its exposure to changes in exchange rates on intercompany and third party trade receivables and payables. The company does not currently enter into derivative financial instruments for speculative purposes. In managing its foreign currency exposures, the company identifies and aggregates naturally occurring offsetting positions and then hedges residual balance sheet exposures. The fair value of the forward and option contracts was a loss of $0.3 million at the end of the second quarter of 2021.

*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 July 3, 2021, the fair value of these instruments was a liability of $33.4 million. The change in fair value of these swap agreements in the first six months of 2021 was a gain of $13.1 million, net of taxes.

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

| | Condensed Consolidated Balance Sheet Presentation | Jul 3, 2021 | Jan 2, 2021 |
|---|---|---|---|
| Fair value | Other assets | $ 1,188 | $ — |
| Fair value | Accrued expenses | $ 9,823 | $ 14,075 |
| Fair value | Other non-current liabilities | $ 24,771 | $ 37,018 |

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

| | | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|---|
| | Presentation of Gain/(loss) | Jul 3, 2021 | Jun 27, 2020 | Jul 3, 2021 | Jun 27, 2020 |
| Gain/(loss) recognized in accumulated other comprehensive income | Other comprehensive income | $ (4,259) | $ (7,619) | $ 7,457 | $ (43,404) |
| Gain/(loss) reclassified from accumulated other comprehensive income (effective portion) | Interest expense | $ (5,207) | $ (3,994) | $ (10,230) | $ (5,261) |

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, Colorado, Florida, Illinois, Michigan, New Hampshire, North Carolina, Ohio, Oregon, Pennsylvania, Tennessee, Texas, Vermont, Washington, Australia, Canada, China, Denmark, Estonia, Italy, Mexico, the Philippines, Poland, Spain, Sweden and the United Kingdom. Principal product lines of this group include conveyor ovens, combi-ovens, convection ovens, baking ovens, proofing ovens, deck ovens, speed cooking ovens, hydrovection ovens, ranges, fryers, rethermalizers, steam cooking equipment, food warming equipment, catering equipment, heated cabinets, charbroilers, ventless cooking systems, kitchen ventilation, induction cooking equipment, countertop cooking equipment, toasters, griddles, charcoal grills, professional mixers, stainless steel fabrication, custom millwork, professional refrigerators, blast chillers, coldrooms, ice machines, freezers, soft serve ice cream equipment, coffee and beverage dispensing equipment, home and professional craft brewing equipment, fry dispensers, bottle filling and canning equipment, and IoT solutions. These products are sold and marketed under the brand names: Anets, APW Wyott, Bakers Pride, Beech, BKI, Blodgett, Blodgett Combi, Bloomfield, Britannia, Carter-Hoffmann, Celfrost, Concordia, CookTek, Crown, CTX, Desmon, Deutsche Beverage, Doyon, Eswood, EVO, Firex, Follett, Frifri, Giga, Globe, Goldstein, Holman, Houno, IMC, Induc, Ink Kegs, Inline Filling Systems, Jade, JoeTap, Josper, L2F, Lang, Lincat, MagiKitch'n, Market Forge, Marsal, Meheen, Middleby Marshall, MPC, Nieco, Nu-Vu, PerfectFry, Pitco, QualServ, RAM, Southbend, Ss Brewtech, Star, Starline, Sveba Dahlen, Synesso, Tank, Taylor, Thor, Toastmaster, TurboChef, Ultrafryer, Varimixer, Wells, Wild Goose and Wunder-Bar.

The Food Processing Equipment Group manufactures preparation, cooking, packaging food handling and food safety equipment for the food processing industry. This business segment has manufacturing operations in Georgia, Illinois, Iowa, North Carolina, Oklahoma, Pennsylvania, Texas, Virginia, Washington, Wisconsin, Denmark, France, Germany, India, Italy, and the United Kingdom. Principal product lines of this group include batch ovens, baking ovens, proofing ovens, conveyor belt ovens, continuous processing ovens, frying systems and automated thermal processing systems, grinders, slicers, reduction and emulsion systems, mixers, blenders, formers, 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, CV-Tek, Danfotech, Deutsche Process, Drake, Glimek, Hinds-Bock, Maurer-Atmos, MP Equipment, Pacproinc, RapidPak, Scanico, Spooner Vicars, Stewart Systems, Thurne and Ve.Ma.C.

The Residential Kitchen Equipment Group manufactures, sells and distributes kitchen equipment for the residential market. This business segment has manufacturing facilities in California, Michigan, Mississippi, Wisconsin, France and the United Kingdom. Principal product lines of this group are ranges, cookers, stoves, cooktops, microwaves, ovens, refrigerators, dishwashers, undercounter refrigeration, wine cellars, ice machines, ventilation equipment and outdoor equipment. These products are sold and marketed under the brand names: AGA, AGA Cookshop, Brava, EVO, 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 | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | Jul 3, 2021 | | Jun 27, 2020 | | Jul 3, 2021 | | Jun 27, 2020 | |
| | Sales | Percent | Sales | Percent | Sales | Percent | Sales | Percent |
| Business Segments: | | | | | | | | |
| Commercial Foodservice | $ 508,778 | 62.9 % | $ 267,500 | 56.7 % | $ 989,933 | 63.2 % | $ 710,624 | 61.8 % |
| Food Processing | 130,008 | 16.1 | 101,563 | 21.5 | 242,502 | 15.5 | 205,829 | 17.9 |
| Residential Kitchen | 169,987 | 21.0 | 102,914 | 21.8 | 334,396 | 21.3 | 232,983 | 20.3 |
| Total | $ 808,773 | 100.0 % | $ 471,977 | 100.0 % | $ 1,566,831 | 100.0 % | $ 1,149,436 | 100.0 % |

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

| | Commercial Foodservice | Food Processing | Residential Kitchen | Corporate and Other [(1)] | Total |
|---|---|---|---|---|---|
| **Three Months Ended July 3, 2021** | | | | | |
| Net sales | $ 508,778 | $ 130,008 | $ 169,987 | $ — | $ 808,773 |
| Income (loss) from operations [(2, 3, 4)] | 109,944 | 26,961 | 33,910 | (34,098) | 136,717 |
| Depreciation expense | 5,993 | 1,337 | 2,738 | 99 | 10,167 |
| Amortization expense [(5)] | 14,246 | 1,834 | 1,784 | 1,579 | 19,443 |
| Net capital expenditures | 6,013 | 1,505 | 2,873 | 195 | 10,586 |
| | | | | | |
| **Six Months Ended July 3, 2021** | | | | | |
| Net sales | $ 989,933 | $ 242,502 | $ 334,396 | $ — | $ 1,566,831 |
| Income (loss) from operations [(2, 3, 4)] | 206,260 | 46,623 | 63,766 | (58,759) | 257,890 |
| Depreciation expense | 11,786 | 2,652 | 5,512 | 354 | 20,304 |
| Amortization expense [(5)] | 29,450 | 3,677 | 3,556 | 3,055 | 39,738 |
| Net capital expenditures | 11,208 | 2,433 | 5,129 | 541 | 19,311 |
| | | | | | |
| Total assets | $ 3,326,410 | $ 631,845 | $ 1,243,477 | $ 221,051 | $ 5,422,783 |
| | | | | | |
| **Three Months Ended June 27, 2020** | | | | | |
| Net sales | $ 267,500 | $ 101,563 | $ 102,914 | $ — | $ 471,977 |
| Income (loss) from operations [(2, 3)] | 26,974 | 19,583 | 6,526 | (13,965) | 39,118 |
| Depreciation expense | 5,307 | 1,363 | 2,794 | 4 | 9,468 |
| Amortization expense [(5)] | 12,894 | 2,000 | 2,737 | 512 | 18,143 |
| Net capital expenditures | 12,187 | 594 | 750 | — | 13,531 |
| | | | | | |
| **Six Months Ended June 27, 2020** | | | | | |
| Net sales | $ 710,624 | $ 205,829 | $ 232,983 | $ — | $ 1,149,436 |
| Income (loss) from operations [(2, 3)] | 115,581 | 34,941 | 19,234 | (25,224) | 144,532 |
| Depreciation expense | 10,207 | 2,699 | 5,777 | 15 | 18,698 |
| Amortization expense [(5)] | 25,334 | 3,700 | 5,457 | 1,021 | 35,512 |
| Net capital expenditures | 16,873 | 2,423 | 3,295 | 121 | 22,712 |
| | | | | | |
| Total assets | $ 3,149,853 | $ 617,638 | $ 1,119,685 | $ 527,525 | $ 5,414,701 |

*(1) Includes corporate and other general company assets and operations.*
*(2) Non-operating expenses are not allocated to the operating segments. Non-operating expenses consist of interest expense and deferred financing amortization, foreign exchange gains and losses and other income and expense items outside of income from operations.*
*(3) Restructuring expenses are allocated in operating income by segment. See note 16 for further details.*
*(4) Gain (loss) on sale of plants are included in Commercial Foodservice and Residential Kitchen.*
*(5) Includes amortization of deferred financing costs and Convertible Notes issuance costs.*

Geographic Information

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

| | Jul 3, 2021 | Jun 27, 2020 |
|---|---|---|
| United States and Canada | $ 332,341 | $ 309,764 |
| Asia | 22,623 | 21,935 |
| Europe and Middle East | 194,494 | 154,020 |
| Latin America | 8,599 | 6,230 |
| Total international | $ 225,716 | $ 182,185 |
| | $ 558,057 | $ 491,949 |

## 15) Employee Retirement Plans

*(a) Pension Plans*

U.S. Plans:

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

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

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

Non-U.S. Plans:

The company maintains a defined benefit plan for its employees at the Wrexham, the United Kingdom facility. Benefits are determined based upon retirement age and years of service with the company. This defined benefit plan was frozen on April 30, 2010 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, 2010 upon reaching retirement age.

The company maintains several pension plans related to AGA and its subsidiaries (collectively, the "AGA Group"), the most significant being the Aga Rangemaster Group Pension Scheme in the United Kingdom.  Membership in the plan on a defined benefit basis of pension provision was closed to new entrants in 2001.  The plan became open to new entrants on a defined contribution basis of pension provision in 2002, but was generally closed to new entrants on this basis during 2014. In December 2020, it was agreed that the Group Pension Scheme would be closed to future pension accruals effective April 5, 2021.

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

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

| | Three Months Ended | | Six Months Ended | |
|---|---|---|---|---|
| | Jul 3, 2021 | Jun 27, 2020 | Jul 3, 2021 | Jun 27, 2020 |
| **Net Periodic Pension Benefit:** | | | | |
| Service cost | $ 196 | $ 624 | $ 390 | $ 1,269 |
| Interest cost | 4,350 | 6,212 | 8,640 | 12,630 |
| Expected return on assets | (19,804) | (17,405) | (39,335) | (35,387) |
| Amortization of net loss (gain) | 3,196 | 810 | 6,348 | 1,647 |
| Amortization of prior service cost (credit) | 726 | 617 | 1,442 | 1,255 |
| | $ (11,336) | $ (9,142) | $ (22,515) | $ (18,586) |

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

*(b) Defined Contribution Plans*

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

**16) Restructuring**

*Commercial Foodservice Equipment Group*

During the fiscal years 2020 and 2019, the company undertook cost reduction initiatives related to the Commercial Foodservice Equipment Group including headcount reductions and facility consolidations. These actions resulted in expenses of $0.5 million and $1.6 million in the three months ended July 3, 2021 and June 27, 2020, respectively, primarily for severance related to headcount reductions and facility consolidations. For the six months period ended July 3, 2021 and June 27, 2020 the expenses for these actions amounted to $0.9 million and $2.1 million, respectively. These expenses are reflected in restructuring expenses in the Condensed Consolidated Statements of Comprehensive Income. The realization of cost savings from the restructuring initiatives began in 2020 with an expected annual savings of approximately $20.0 million. At July 3, 2021, the restructuring obligations accrued for these initiatives are immaterial and will substantially be complete by the end of fiscal 2021.

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

**17) Share Repurchases**

The company treats shares withheld for tax purposes on behalf of employees in connection with the vesting of restricted share grants as common stock repurchases because they reduce the number of shares that would have been issued upon vesting. For the three and six months ended July 3, 2021, the company repurchased 3,558 and 14,031 shares of its common stock, respectively, that were surrendered to the company for withholding taxes related to restricted stock vestings for $0.6 million and $2.4 million, respectively. These withheld shares are not considered common stock repurchases under the authorized common stock repurchase plan and accordingly are not included in the common stock repurchase totals disclosed below.

In November 2017, the company's Board of Directors approved a stock repurchase program authorizing the company to repurchase in the aggregate up to 2,500,000 shares of its outstanding common stock. During 2020, the company repurchased 896,965 shares of its common stock under the program for $69.7 million, including applicable commissions, which represented an average price of $77.70. As of July 3, 2021, 1,023,165 shares had been purchased under the 2017 stock repurchase program and 1,476,835 remain authorized for repurchase.

## 18) Subsequent Events

***Novy Acquisition***

On July 12, 2021, Middleby announced the acquisition of Novy Invest NV, a leading manufacturer of premium residential ventilation hoods and cooktops based in Belgium for a purchase price of approximately $270.0 million.

***Termination of Welbilt Merger***

As previously disclosed, on April 20, 2021, Middleby, entered into an Agreement and Plan of Merger (the "Merger Agreement") with Welbilt, Inc., a Delaware corporation ("Welbilt"), Middleby Marshall Inc., a Delaware corporation and a direct wholly owned subsidiary of Middleby ("Acquiror"), and Mosaic Merger Sub, Inc., a Delaware corporation and a direct wholly owned subsidiary of Acquiror ("Merger Sub"), which provided that, upon the terms and subject to the conditions set forth therein, Merger Sub would merge with and into Welbilt, with Welbilt surviving as an indirect, wholly-owned subsidiary of Middleby.

On July 13, 2021, Middleby announced that, under the terms of the Merger Agreement, it would not exercise its right to propose any modifications to the terms of the Merger Agreement and would allow the five-day match period to expire. Accordingly, on July 14, 2021, Welbilt delivered to Middleby a written notice terminating the Merger Agreement in accordance with Section 7.1(c)(iii) of the Merger Agreement and, concurrently with Middleby's receipt of the termination fee of $110.0 million in cash from Welbilt, the Merger Agreement was terminated on July 14, 2021.

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

**Special Notes Regarding Forward-Looking Statements**

This report contains forward-looking statements subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. The company cautions readers that these projections are based upon future results or events and are highly dependent upon a variety of important factors which could cause such results or events to differ materially from any forward-looking statements which may be deemed to have been made in this report, or which are otherwise made by or on behalf of the company. Such factors include, but are not limited to, the impact of COVID-19 pandemic and the response of governments, businesses and other third parties; volatility in earnings resulting from goodwill impairment losses which may occur irregularly and in varying amounts; variability in financing costs; quarterly variations in operating results; dependence on key customers; international exposure; foreign exchange and political risks affecting international sales; ability to protect trademarks, copyrights and other intellectual property; changing market conditions; the impact of competitive products and pricing; the timely development and market acceptance of the company's products; the availability and cost of raw materials; and other risks detailed herein and from time-to-time in the company's SEC filings, including the company's 2020 Annual Report on Form 10-K. All forward-looking statements are expressly qualified in their entirety by these cautionary statements. The forward-looking statements included in this report are made only as of the date hereof and, except as required by federal securities laws and rules and regulations of the SEC, the company undertakes no obligation to publicly update or revise any forward-looking statements, whether as a result of new information, future events or otherwise.

**Termination of Welbilt Merger**

As previously disclosed, on April 20, 2021, Middleby, entered into a Merger Agreement with Welbilt, Acquiror and Merger Sub, which provided that, upon the terms and subject to the conditions set forth therein, Merger Sub would merge with and into Welbilt, with Welbilt surviving as an indirect, wholly-owned subsidiary of Middleby.

On July 13, 2021, Middleby announced that, under the terms of the Merger Agreement, it would not exercise its right to propose any modifications to the terms of the Merger Agreement and would allow the five-day match period to expire. Accordingly, on July 14, 2021, Welbilt delivered to Middleby a written notice terminating the Merger Agreement in accordance with Section 7.1(c)(iii) of the Merger Agreement and, concurrently with Middleby's receipt of the termination fee of $110 million in cash from Welbilt, the Merger Agreement was terminated on July 14, 2021.

**Net Sales Summary**

**(dollars in thousands)**

| | Three Months Ended | | | | Six Months Ended | | | |
|---|---|---|---|---|---|---|---|---|
| | Jul 3, 2021 | | Jun 27, 2020 | | Jul 3, 2021 | | Jun 27, 2020 | |
| | Sales | Percent | Sales | Percent | Sales | Percent | Sales | Percent |
| Business Segments: | | | | | | | | |
| Commercial Foodservice | $ 508,778 | 62.9 % | $ 267,500 | 56.7 % | $ 989,933 | 63.2 % | $ 710,624 | 61.8 % |
| Food Processing | 130,008 | 16.1 | 101,563 | 21.5 | 242,502 | 15.5 | 205,829 | 17.9 |
| Residential Kitchen | 169,987 | 21.0 | 102,914 | 21.8 | 334,396 | 21.3 | 232,983 | 20.3 |
| Total | $ 808,773 | 100.0 % | $ 471,977 | 100.0 % | $ 1,566,831 | 100.0 % | $ 1,149,436 | 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 | | Six Months Ended | |
|---|---|---|---|---|
| | Jul 3, 2021 | Jun 27, 2020 | Jul 3, 2021 | Jun 27, 2020 |
| Net sales | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| Cost of sales | 62.4 | 67.6 | 63.0 | 64.9 |
| Gross profit | 37.6 | 32.4 | 37.0 | 35.1 |
| Selling, general and administrative expenses | 20.5 | 23.7 | 20.5 | 22.3 |
| Restructuring | 0.1 | 0.5 | 0.1 | 0.3 |
| Income from operations | 17.0 | 8.2 | 16.4 | 12.5 |
| Interest expense and deferred financing amortization, net | 1.8 | 4.6 | 1.9 | 3.4 |
| Net periodic pension benefit (other than service costs) | (1.4) | (2.1) | (1.5) | (1.7) |
| Other (income) expense, net | (0.1) | 0.1 | (0.1) | 0.3 |
| Earnings before income taxes | 16.7 | 5.6 | 16.1 | 10.5 |
| Provision for income taxes | 1.7 | 1.2 | 2.7 | 2.5 |
| Net earnings | 15.0 % | 4.4 % | 13.4 % | 8.0 % |

**Three Months Ended July 3, 2021 as compared to Three Months Ended June 27, 2020**

**NET SALES**. Net sales for the three months period ended July 3, 2021 increased by $336.8 million or 71.4% to $808.8 million as compared to $472.0 million in the three months period ended June 27, 2020. Net sales increased by $15.6 million, or 3.3%, from the fiscal 2020 acquisitions of Wild Goose and United Foodservice Equipment Zhuhai. Excluding acquisitions and a disposition, net sales increased $324.2 million, or 69.1%, from the prior year period. The impact of foreign exchange rates on foreign sales translated into U.S. Dollars for the three months period ended July 3, 2021 increased net sales by approximately $20.5 million or 4.4%. Excluding the impact of foreign exchange, acquisitions and a disposition, sales increased 64.8% for the three months period ended July 3, 2021 as compared to the prior year period, including a net sales increase of 80.4% at the Commercial Foodservice Equipment Group, a net sales increase of 25.1% at the Food Processing Equipment Group and a net sales increase of 63.1% at the Residential Kitchen Equipment Group.

- Net sales of the Commercial Foodservice Equipment Group increased by $241.3 million, or 90.2%, to $508.8 million in the three months period ended July 3, 2021, as compared to $267.5 million in the prior year period. Net sales from the acquisitions of Wild Goose and United Foodservice Equipment Zhuhai, which were acquired on December 7, 2020, and December 18, 2020, respectively, accounted for an increase of $15.6 million during the three months period ended July 3, 2021. Excluding the impact of acquisitions, net sales of the Commercial Foodservice Equipment Group increased $225.7 million, or 84.4%, as compared to the prior year period. Excluding the impact of foreign exchange and acquisitions, net sales increased $215.2 million or 80.4% at the Commercial Foodservice Equipment Group. Domestically, the company realized a sales increase of $163.1 million, or 83.3%, to $359.0 million, as compared to $195.9 million in the prior year period. This includes an increase of $11.6 million from recent acquisitions. Excluding the acquisitions, the net increase in domestic sales was $151.5 million, or 77.3%. International sales increased $78.2 million, or 109.2%, to $149.8 million, as compared to $71.6 million in the prior year period. This includes an increase of $4.0 million from the recent acquisitions and an increase of $10.5 million related to the favorable impact of exchange rates. Excluding acquisitions and foreign exchange, the net sales increase in international sales was $63.7 million, or 89.0%. The increase in domestic and international sales is related to improvements in market conditions and consumer demand, as the prior year period was significantly impacted by the COVID-19 pandemic.

- Net sales of the Food Processing Equipment Group increased by $28.4 million, or 28.0%, to $130.0 million in the three months period ended July 3, 2021, as compared to $101.6 million in the prior year period. Excluding the impact of foreign exchange, net sales increased $25.5 million, or 25.1% at the Food Processing Equipment Group. Domestically, the company realized a sales increase of $22.7 million, or 31.2%, to $95.5 million, as compared to $72.8 million in the prior year period. The increase in domestic sales reflects growth primarily driven by both protein and bakery products. International sales increased $5.7 million, or 19.8%, to $34.5 million, as compared to $28.8 million in the prior year period. This includes an increase of $2.9 million related to the favorable impact of exchange rates. Excluding foreign exchange, the net sales increase in international sales was $2.8 million, or 9.7%. The increase in international revenues is primarily driven by protein projects.

- Net sales of the Residential Kitchen Equipment Group increased by $67.1 million, or 65.2%, to $170.0 million in the three months period ended July 3, 2021, as compared to $102.9 million in the prior year period. Excluding the impact of foreign exchange and a disposition, net sales increased $63.0 million, or 63.1% at the Residential Kitchen Equipment Group. Domestically, the company realized a sales increase of $31.6 million, or 38.7%, to $113.3 million, as compared to $81.7 million in the prior year period. International sales increased $35.5 million, or 167.5%, to $56.7 million, as compared to $21.2 million in the prior year period. This includes an increase of $7.1 million related to the favorable impact of exchange rates. Excluding foreign exchange and a disposition, the net sales increase in international sales was $31.4 million, or 172.5%. The increase in domestic and international sales reflects the strong demand for our premium appliance brands.

**GROSS PROFIT**. Gross profit increased to $303.7 million in the three months period ended July 3, 2021 from $153.1 million in the prior year period, primarily reflecting higher sales volumes related to improvements in market conditions and consumer demand and favorable impact of foreign exchanges rates of $7.7 million. The gross margin rate was 32.4% in the three months period ended June 27, 2020 as compared to 37.6% in the current year period.

- Gross profit at the Commercial Foodservice Equipment Group increased by $107.3 million, or 126.7%, to $192.0 million in the three months period ended July 3, 2021, as compared to $84.7 million in the prior year period. Gross profit from the acquisitions of Wild Goose and United Foodservice Equipment Zhuhai increased gross profit by $6.1 million. Excluding acquisitions, gross profit increased by $101.2 million related to higher sales volumes. The impact of foreign exchange rates increased gross profit by approximately $3.9 million. The gross margin rate increased to 37.7%, as compared to 31.7% in the prior year period. The gross margin rate, excluding acquisitions and the impact of foreign exchange, was 37.7%.

- Gross profit at the Food Processing Equipment Group increased by $11.2 million, or 31.1%, to $47.2 million in the three months period ended July 3, 2021, as compared to $36.0 million in the prior year period. The impact of foreign exchange rates increased gross profit by approximately $1.4 million. The gross profit margin rate increased to 36.3%, as compared to 35.4% in the prior year period primarily related to higher sales volumes and product mix. The gross margin rate, excluding the impact of foreign exchange, was 36.0%.

- Gross profit at the Residential Kitchen Equipment Group increased by $31.6 million, or 94.9%, to $64.9 million in the three months period ended July 3, 2021, as compared to $33.3 million in the prior year period. The impact of foreign exchange rates increased gross profit by approximately $2.4 million. The gross margin rate increased to 38.2%, as compared to 32.4% in the prior year period related to higher sales volumes. The gross margin rate, excluding the impact of foreign exchange, was 38.4%.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**. Combined selling, general and administrative expenses increased from $111.8 million in the three months period ended June 27, 2020 to $165.7 million in the three months period ended July 3, 2021. As a percentage of net sales, selling, general, and administrative expenses were 23.7% in the three months period ended June 27, 2020, as compared to 20.5% in the three months period ended July 3, 2021.

Selling, general and administrative expenses reflect increased costs of $4.4 million associated with acquisitions, including $1.7 million of intangible amortization expense. Selling, general and administrative expenses increased $26.4 million related to compensation costs and $13.1 million related to professional fees, including deal expenses. Higher sales volumes also resulted in increased commission expense. Foreign exchange rates had an unfavorable impact of $3.5 million.

**RESTRUCTURING EXPENSES**. Restructuring expenses were $2.2 million for the three months period ended June 27, 2020 and $1.0 million for the three months period ended July 3, 2021. Restructuring expenses in both periods related primarily to headcount reductions and facility consolidations within the Commercial Foodservice Equipment Group.

**NON-OPERATING EXPENSES**. Interest and deferred financing amortization costs were $14.2 million in the three months period ended July 3, 2021, as compared to $21.8 million in the prior year period, reflecting the reduction in borrowing levels, the reduction in average interest rates under the Credit Facility and the benefit from the Convertible Notes. Net periodic pension benefit (other than service costs) increased $1.7 million to $11.5 million in the three months period ended July 3, 2021 from $9.8 million in the prior year period, related to the decrease in discount rate used to calculate the interest cost. Other income was $0.5 million in the three months period ended July 3, 2021, as compared to other expense of $0.4 million in the prior year period and consists mainly of foreign exchange gains and losses.

**INCOME TAXES**. A tax provision of $13.9 million, at an effective rate of 10.3%, was recorded during the three months period ended July 3, 2021, as compared to $5.6 million at an effective rate of 20.9%, in the prior year period. The lower rate in the current year is primarily due to several discrete tax benefits, including a deferred tax benefit for the enacted UK tax rate change from 19% to 25% and tax benefits from amended U.S. tax returns. When excluding the discrete tax adjustments, the 2021 rate was approximately 24.5%.

**Six Months Ended July 3, 2021 as compared to Six Months Ended June 27, 2020**

**NET SALES**. Net sales for the six months period ended July 3, 2021 increased by $417.4 million or 36.3% to $1,566.8 million as compared to $1,149.4 million in the six months period ended June 27, 2020. Net sales increased by $34.2 million, or 3.0%, from the fiscal 2020 acquisitions of Deutsche, Wild Goose and United Foodservice Equipment Zhuhai. Excluding acquisitions and a disposition, net sales increased $391.9 million, or 34.4%, from the prior year period. The impact of foreign exchange rates on foreign sales translated into U.S. Dollars for the six months period ended July 3, 2021 increased net sales by approximately $31.3 million or 2.7%. Excluding the impact of foreign exchange, acquisitions and a disposition, sales increased 31.6% for six months period ended July 3, 2021 as compared to the prior year period, including a net sales increase of 32.3% at the Commercial Foodservice Equipment Group, a net sales increase of 15.8% at the Food Processing Equipment Group and a net sales increase of 44.0% at the Residential Kitchen Equipment Group.

- Net sales of the Commercial Foodservice Equipment Group increased by $279.3 million, or 39.3%, to $989.9 million in the six months period ended July 3, 2021, as compared to $710.6 million in the prior year period. Net sales from the acquisitions of Deutsche, Wild Goose and United Foodservice Equipment Zhuhai, which were acquired on March 2, 2020, December 7, 2020, and December 18, 2020, respectively, accounted for an increase of $34.2 million during the six months period ended July 3, 2021. Excluding the impact of acquisitions, net sales of the Commercial Foodservice Equipment Group increased $245.1 million, or 34.5%, as compared to the prior year period. Excluding the impact of foreign exchange and acquisitions, net sales increased $229.4 million or 32.3% at the Commercial Foodservice Equipment Group. Domestically, the company realized a sales increase of $195.5 million, or 38.9%, to $697.9 million, as compared to $502.4 million in the prior year period. This includes an increase of $25.6 million from recent acquisitions. Excluding acquisitions, the net increase in domestic sales was $169.9 million, or 33.8%. The increase in domestic sales is related to improvements in market conditions and consumer demand. International sales increased $83.8 million, or 40.2%, to $292.0 million, as compared to $208.2 million in the prior year period. This includes an increase of $8.6 million from the recent acquisitions and a increase of $15.7 million related to the favorable impact of exchange rates. Excluding acquisitions and foreign exchange, the net sales increase in international sales was $59.5 million, or 28.6%. The increase in international revenues is related to improvements in market conditions, primarily in the European and Asian markets.

- Net sales of the Food Processing Equipment Group increased by $36.7 million, or 17.8%, to $242.5 million in the six months period ended July 3, 2021, as compared to $205.8 million in the prior year period. Excluding the impact of foreign exchange, net sales increased $32.5 million or 15.8% at the Food Processing Equipment Group. Domestically, the company realized a sales increase of $29.5 million, or 20.3%, to $175.1 million, as compared to $145.6 million in the prior year period. The increase in domestic sales reflects growth primarily driven by both protein and bakery products. International sales increased $7.2 million, or 12.0%, to $67.4 million, as compared to $60.2 million in the prior year period. This includes an increase of $4.2 million related to the favorable impact of exchange rates. Excluding the foreign exchange, the net sales increase in international sales was $3.0 million, or 5.0%. The increase in international revenues is primarily driven by protein projects.

- Net sales of the Residential Kitchen Equipment Group increased by $101.4 million or 43.5%, to $334.4 million in the six months period ended July 3, 2021, as compared to $233.0 million in the prior year period. Excluding the impact of foreign exchange and a disposition, net sales increased $98.7 million, or 44.0%, at the Residential Kitchen Equipment Group. Domestically, the company realized a sales increase of $55.1 million, or 33.0%, to $221.9 million, as compared to $166.8 million in the prior year period. International sales increased $46.3 million, or 69.9%, to $112.5 million, as compared to $66.2 million in the prior year period. This includes an increase of $11.4 million related to the favorable impact of exchange rates. Excluding foreign exchange and a disposition, the net sales increase in international sales was $43.6 million, or 75.8%. The increase in domestic and international sales reflects the strong demand for our premium appliance brands.

**GROSS PROFIT**. Gross profit increased to $579.6 million in the six months period ended July 3, 2021 from $403.3 million in the prior year period, primarily reflecting higher sales volumes related to improvements in market conditions and consumer demand and the favorable impact of foreign exchanges rates of $11.6 million. The gross margin rate was 35.1% in the six months period ended June 27, 2020 as compared to 37.0% in the current year period.

- Gross profit at the Commercial Foodservice Equipment Group increased by $117.1 million, or 46.8%, to $367.2 million in the six months period ended July 3, 2021, as compared to $250.1 million in the prior year period. Gross profit from the acquisitions of Deutsche, Wild Goose and United Foodservice Equipment Zhuhai increased gross profit by $11.8 million. Excluding acquisitions, gross profit increased by $105.3 million related to higher sales volumes. The impact of foreign exchange rates increased gross profit by approximately $5.8 million. The gross margin rate increased to 37.1%, as compared to 35.2% in the prior year period. The gross margin rate, excluding acquisitions and the impact of foreign exchange, was 37.2%.

- Gross profit at the Food Processing Equipment Group increased by $14.1 million, or 19.5%, to $86.3 million in the six months period ended July 3, 2021, as compared to $72.2 million in the prior year period. The impact of foreign exchange rates increased gross profit by approximately $2.0 million. The gross profit margin rate increased to 35.6%, as compared to 35.1% in the prior year period primarily related to higher sales volumes and product mix. The gross margin rate, excluding the impact of foreign exchange, was 35.4%.

- Gross profit at the Residential Kitchen Equipment Group increased by $43.6 million, or 53.2%, to $125.6 million in the six months period ended July 3, 2021, as compared to $82.0 million in the prior year period. The impact of foreign exchange rates increased gross profit by approximately $3.8 million. The gross margin rate increased to 37.6%, as compared to 35.2% in the prior year period, related to higher sales volumes. The gross margin rate, excluding the impact of foreign exchange, was 37.7%.

**SELLING, GENERAL AND ADMINISTRATIVE EXPENSES**. Combined selling, general and administrative expenses increased from $255.8 million in the six months period ended June 27, 2020 to $320.7 million in the six months period ended July 3, 2021. As a percentage of net sales, selling, general, and administrative expenses were 22.3% in the six months period ended June 27, 2020, as compared to 20.5% in the six months period ended July 3, 2021.

Selling, general and administrative expenses reflect increased costs of $9.8 million associated with acquisitions, including $4.3 million of intangible amortization expense. Selling, general and administrative expenses increased $39.9 million related to compensation costs and $16.1 million related to professional fees, including deal expenses. Higher sales volumes also resulted in increased commission expense, which was offset by decreases in bad debt expense and travel and entertainment expenses. Foreign exchange rates had an unfavorable impact of $5.6 million.

**RESTRUCTURING EXPENSES**. Restructuring expenses decreased $1.2 million from $3.0 million in the six months period ended June 27, 2020 to $1.8 million in the six months period ended July 3, 2021. Restructuring expenses in both periods related primarily to headcount reductions and facility consolidations within the Commercial Foodservice Equipment Group.

**NON-OPERATING EXPENSES**. Interest and deferred financing amortization costs were $30.3 million in the six months period ended July 3, 2021, as compared to $37.5 million in the prior year period, reflecting the reduction in borrowing levels, the reduction in the average interest rates under the Credit Facility and the benefit from the Convertible Notes. Net periodic pension benefit (other than service costs) increased $3.0 million to $22.9 million in the six months period ended July 3, 2021 from $19.9 million in the prior year period, related to the decrease in discount rate used to calculate the interest cost. Other income was $2.2 million in the six months period ended July 3, 2021, as compared to other expense of $3.7 million in the prior year period and consists mainly of foreign exchange gains and losses.

**INCOME TAXES**. A tax provision of $42.8 million, at an effective rate of 16.9%, was recorded during the six months period ended July 3, 2021, as compared to $28.3 million at an effective rate of 22.9%, in the prior year period. The lower rate in the current year is primarily due to several discrete tax benefits, including a deferred tax benefit for the enacted UK tax rate change from 19% to 25% and tax benefits from amended U.S. tax returns. When excluding the discrete tax adjustments, the 2021 rate was approximately 24.5%.

**Financial Condition and Liquidity**

During the six months ended July 3, 2021, cash and cash equivalents increased by $127.5 million to $395.6 million from $268.1 million at January 2, 2021. Total debt increased to $1.8 billion at July 3, 2021 from $1.7 billion at January 2, 2021 primarily due to the adoption of ASU 2020-06 as discussed in Note 4, Recently Issued Accounting Standards, in the Notes to the Condensed Consolidated Financial Statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

**OPERATING ACTIVITIES.** Net cash provided by operating activities was $172.4 million for the six months ended July 3, 2021, compared to $164.8 million for the six months ended June 27, 2020.

During six months period ended July 3, 2021, working capital changes meaningfully impacted operating cash flows. These included an increase in accounts receivable of $63.5 million due to improved market conditions and increased sales volumes. Also, inventory increased $68.0 million and accounts payable increased $41.5 million to support increased demand and to manage supply chain risks.

**INVESTING ACTIVITIES.** During the six months ended July 3, 2021, net cash used for investing activities amounted to $24.2 million. Cash used to fund acquisitions and investments amounted to $10.9 million during the six months ended July 3, 2021. Additionally, $19.3 million was expended, primarily for additions and upgrades of production equipment, manufacturing facilities and residential and commercial showrooms. Proceeds on the sale of property following facility consolidation actions generated $5.9 million

**FINANCING ACTIVITIES.** Net cash flows used by financing activities were $18.7 million during the six months ended July 3, 2021. The company's borrowing activities during the six months ended July 3, 2021 included $10.9 million of net repayments under its Credit Facility. The company used $2.4 million to repurchase 14,031 shares of Middleby common stock that were surrendered to the company by employees in lieu of cash payment for withholding taxes related to restricted stock vesting during the quarter. Additionally, the company settled deferred purchase price obligations of $5.5 million during the six months ended July 3, 2021.

At July 3, 2021, 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.

**Recently Issued Accounting Standards**

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

**Critical Accounting Policies and Estimates**

Management's discussion and analysis of financial condition and results of operations are based upon the company's consolidated financial statements, which have been prepared in accordance with accounting principles generally accepted in the United States. The preparation of these financial statements requires the company to make significant estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses as well as related disclosures. On an ongoing basis, the company evaluates its estimates and judgments based on historical experience and various other factors that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions and any such differences could be material to the company's consolidated financial statements. There have been no changes in the company's critical accounting policies, which include revenue recognition, inventories, goodwill and other intangibles, pensions benefits, and income taxes, as discussed in the company's Annual Report on Form 10-K for the year ended January 2, 2021 (the “2020 Annual Report on Form 10-K”) other than those described below.

During the three months ended July 3, 2021, the company adopted ASU 2020-06, "Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity."

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

**Interest Rate Risk**

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

| Twelve Month Period coinciding with the end of the company's Fiscal Second Quarter | | Variable Rate Debt |
|---|---|---|
| 2022 | $ | 23,260 |
| 2023 | | 19,087 |
| 2024 | | 19,043 |
| 2025 | | 1,024,155 |
| 2026 and thereafter | | 733,308 |
| | $ | 1,818,853 |

The company is exposed to interest rate risk on its floating-rate debt. The company has entered into interest rate swaps to fix the interest rate applicable to certain of its variable-rate debt. The agreements swap one-month LIBOR for fixed rates. The company has designated these swaps as cash flow hedges and all changes in fair value of the swaps are recognized in accumulated other comprehensive income. As of July 3, 2021, the fair value of these instruments was a liability of $33.4 million. The change in fair value of these swap agreements in the first six months of 2021 was a gain of $13.1 million, net of taxes. The potential net loss on fair value for such instruments from a hypothetical 10% adverse change in quoted interest rates would not have a material impact on the company's financial position, results of operations and cash flows.

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

**Foreign Exchange Derivative Financial Instruments**

The company uses foreign currency forward, foreign exchange swaps and option purchase and sales contracts to hedge its exposure to changes in foreign currency exchange rates. The company’s primary hedging activities are to mitigate its exposure to changes in exchange rates on intercompany and third party trade receivables and payables. The company does not currently enter into derivative financial instruments for speculative purposes. In managing its foreign currency exposures, the company identifies and aggregates naturally occurring offsetting positions and then hedges residual balance sheet exposures. The potential net loss on fair value for such instruments from a hypothetical 10% adverse change in quoted foreign exchange rates would not have a material impact on the company's financial position, results of operations and cash flows. The fair value of the forward and option contracts was a loss of $0.3 million at the end of the second quarter of 2021.

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

## Item 4. Controls and Procedures

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

As of July 3, 2021, 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 July 3, 2021, 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 six months ended July 3, 2021, 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) |
|---|---|---|---|---|
| April 4, 2021 to May 1, 2021 | — | $ — | — | 1,476,835 |
| May 2, 2021 to May 29, 2021 | — | — | — | 1,476,835 |
| May 30, 2021 to July 3, 2021 | — | — | — | 1,476,835 |
| Quarter ended July 3, 2021 | — | $ — | — | 1,476,835 |

(1) On November 7, 2017, the company's Board of Directors resolved to terminate the company's existing share repurchase program, effective as of such date, which was originally adopted in 1998, and approved a new stock repurchase program. This program authorizes the company to repurchase in the aggregate up to 2,500,000 shares of its outstanding common stock. As of July 3, 2021, the total number of shares authorized for repurchase under the program is 2,500,000. As of July 3, 2021, 1,023,165 shares had been purchased under the 2017 stock repurchase program.

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

**Item 6. Exhibits**

| | |
|---|---|
| Exhibits: | |
| Exhibit 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 July 3, 2021, filed on August 12, 2021, formatted in Inline Extensive Business Reporting Language (iXBRL); (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of earnings, (iii) condensed statements of cash flows, (iv) notes to the condensed consolidated financial statements. |
| Exhibit 104 – | Cover Page Interactive Data File (formatted as Inline Extensive Business Reporting Language (iXBRL) and contained in Exhibit 101). |

**SIGNATURE**

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

THE MIDDLEBY CORPORATION
(Registrant)

| | | | |
|---|---|---|---|
| Date: | August 12, 2021 | By: | /s/ Bryan E. Mittelman |
| | | | Bryan E. Mittelman |
| | | | Chief Financial Officer |

EXHIBIT 31.1

**CERTIFICATIONS**

I, Timothy J. FitzGerald, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Middleby Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: August 12, 2021

/s/ Timothy J. FitzGerald

Timothy J. FitzGerald
Chief Executive Officer of The Middleby Corporation

EXHIBIT 31.2

**CERTIFICATIONS**

I, Bryan E. Mittelman, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q of The Middleby Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of registrant's board of directors (or persons performing the equivalent function):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal controls over financial reporting.

Date: August 12, 2021

/s/ Bryan E. Mittelman

Bryan E. Mittelman

Chief Financial Officer of The Middleby Corporation

EXHIBIT 32.1

**CERTIFICATION BY THE PRINCIPAL EXECUTIVE OFFICER OF**
**THE MIDDLEBY CORPORATION**
**PURSUANT TO RULE 13A-14(b) UNDER THE EXCHANGE ACT AND**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. 1350)**

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

I, Timothy J. FitzGerald, Chief Executive Officer (principal executive officer) of The Middleby Corporation (the “Registrant”), certify, to the best of my knowledge, based upon a review of the Quarterly Report on Form 10-Q for the period ended July 3, 2021 of the Registrant (the “Report”), that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

(2) The information contained in the Report fairly presents, in all material aspects, the financial condition and results of operations of the Registrant.

Date: August 12, 2021

/s/ Timothy J. FitzGerald
Timothy J. FitzGerald

EXHIBIT 32.2

**CERTIFICATION BY THE PRINCIPAL FINANCIAL OFFICER OF**
**THE MIDDLEBY CORPORATION**
**PURSUANT TO RULE 13A-14(b) UNDER THE EXCHANGE ACT AND**
**SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002 (18 U.S.C. 1350)**

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

I, Bryan E. Mittelman, Chief Financial Officer (principal financial officer) of The Middleby Corporation (the “Registrant”), certify, to the best of my knowledge, based upon a review of the Quarterly Report on Form 10-Q for the period ended July 3, 2021 of the Registrant (the “Report”), that:

(1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Exchange Act; and

(2) The information contained in the Report fairly presents, in all material aspects, the financial condition and results of operations of the Registrant.

Date: August 12, 2021

/s/ Bryan E. Mittelman

Bryan E. Mittelman