PIMCO MUNICIPAL INCOME FUND
Form PRE 14A
October 19, 2018

SCHEDULE 14A

(Rule 14a-101)

INFORMATION REQUIRED IN PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

(Amendment No.)

Filed by the Registrant Filed by a Party other than the Registrant

Check the appropriate box:

Preliminary Proxy Statement

Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

Definitive Joint Proxy Statement

Definitive Additional Materials

Soliciting Material Under Rule 14a-12

PIMCO Municipal Income Fund

PIMCO California Municipal Income Fund

PIMCO New York Municipal Income Fund

PIMCO Municipal Income Fund II

PIMCO California Municipal Income Fund II

PIMCO New York Municipal Income Fund II

PIMCO Municipal Income Fund III

PIMCO California Municipal Income Fund III

(Name of Registrant as Specified in its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

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(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

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Dear Shareholder:

The Boards of Trustees of PIMCO Municipal Income Fund (PMF), PIMCO California Municipal Income Fund (PCQ), PIMCO New York Municipal Income Fund (PNF), PIMCO Municipal Income Fund II (PML), PIMCO California Municipal Income Fund II (PCK), PIMCO New York Municipal Income Fund II (PNI), PIMCO Municipal Income Fund III (PMX) and PIMCO California Municipal Income Fund III (PZC) (each a Fund and, collectively, the Funds) are currently comprised of eight members.. We hope for your support to re-elect the incumbent Trustees who have been nominated by the Board (the Board Nominees) of each Fund at its upcoming annual shareholder meeting.

Preferred Shareholders: At the upcoming annual shareholder meeting for the Funds (the annual meeting), you will be asked to vote for the re-election of each Fund s incumbent Board Nominees. We have received notice that, at the upcoming annual meeting, Dryden Capital, LLC and a hedge fund it manages (collectively, Dryden) intend to nominate one of Dryden s founders as their own candidate (the Dryden Nominee) for election as a Trustee of each Fund by the Fund s preferred shareholders voting as a single class apart from the common shareholders (a preferred share Trustee). The Trustees do not support the Dryden Nominee and urge you to vote in favor of re-electing the incumbent preferred share Board Nominees. We believe that the current Trustees are experienced and highly qualified individuals who have worked well together as a Board and have a strong history of actively supporting the interests of the Funds and all of their shareholders.

The Funds Trustees (including preferred share Trustees) have a fiduciary duty to act in the best interests of the Fund, and in carrying out this duty, they must consider the interests of all shareholders, both common and preferred. At each of the Funds regular quarterly meetings, the Trustees review and consider detailed reports from PIMCO regarding the Funds use of leverage, financing costs, and available alternatives to the Funds Auction Rate Preferred Shares (ARPS). In this regard, at PIMCO s recommendation, each Fund recently offered all holders of ARPS, including Dryden, an opportunity to tender up to 100% of their ARPS at a price of 85% of the ARPS liquidation preference (i.e., face value) in a tender offer. In considering the interests of all shareholders, the Board determined that this price represented fair value for the ARPS and was in the best interests of the Funds and their shareholders. Although a substantial percentage of ARPS holders participated in the tender offers, Dryden chose not to participate. The Trustees will continue to closely monitor the Funds leverage and consider alternative primary forms of financing that are in the best interests of Funds and their shareholders.

For these reasons, the Trustees of the Funds urge you to vote in favor of re-electing the Funds incumbent preferred share Board Nominees, Hans W. Kertess for PMF, PML, PNI, PCQ, PCK and PNF and Alan Rappaport for PMX and PZC. The Trustees of the Funds urge you NOT TO RETURN any proxy card sent by Dryden.

Common Shareholders: For common shareholders, the upcoming annual shareholder meeting for the Funds will be similar to previous meetings. As has been the case at previous meetings, you will be asked to vote, together with the preferred shareholders, on the Funds incumbent Board Nominees. You will **not** be asked to vote for any Dryden nominee.

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The current Trustees thank you for your support of the Fund s incumbent Board Nominees in the past, and we hope for your continued support at the upcoming annual shareholder meeting. If you have any questions about the upcoming meeting, please call a shareholder service representative at [ ].

Sincerely yours,

Hans W. Kertess

Chairman of the Boards

NOTICE OF JOINT ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON DECEMBER 19, 2018

PIMCO MUNICIPAL INCOME FUND (PMF)

PIMCO CALIFORNIA MUNICIPAL INCOME FUND (PCQ)

PIMCO NEW YORK MUNICIPAL INCOME FUND (PNF)

PIMCO MUNICIPAL INCOME FUND II (PML)

PIMCO CALIFORNIA MUNICIPAL INCOME FUND II (PCK)

PIMCO NEW YORK MUNICIPAL INCOME FUND II (PNI)

PIMCO MUNICIPAL INCOME FUND III (PMX)

PIMCO CALIFORNIA MUNICIPAL INCOME FUND III (PZC)

1633 Broadway

New York, New York 10019

To the Shareholders of PIMCO Municipal Income Fund (PMF), PIMCO California Municipal Income Fund (PCQ), PIMCO New York Municipal Income Fund (PNF), PIMCO Municipal Income Fund II (PML), PIMCO California Municipal Income Fund II (PCK), PIMCO New York Municipal Income Fund II (PNI), PIMCO Municipal Income Fund III (PMX) and PIMCO California Municipal Income Fund III (PZC) (each, a Fund and, collectively, the Funds

Notice is hereby given that a Joint Annual Meeting of Shareholders of each Fund (the Meeting) will be held at the offices of Pacific Investment Management Company LLC (PIMCO or the Manager), at 1633 Broadway, between West 50th and West 51st Streets, 42nd Floor, New York, New York 10019, on Wednesday, December 19, 2018, with the Meeting to be held at 10:30 A.M., Eastern Time, for the following purposes, which are more fully described in the accompanying Proxy Statement:

1. To elect Trustees of each Fund, each to hold office for the term indicated and until his or her successor shall have been elected and qualified; and

2. To transact such other business as may properly come before the Meeting or any adjournment(s) or postponement(s) thereof.

The Board of Trustees of each Fund has fixed the close of business on October 19, 2018 as the record date for the determination of shareholders entitled to receive notice of, and to vote at, the Meeting or any adjournment(s) or postponement(s) thereof. The enclosed proxy is being solicited on behalf of the Board of Trustees of each Fund.

By order of the Board of Trustees of each Fund

Joshua D. Ratner
Secretary

New York, New York

October [ ], 2018

It is important that your shares be represented at the Meeting in person or by proxy, no matter how many shares you own. If you do not expect to attend the Meeting, please complete, date, sign and return the applicable enclosed proxy or proxies in the accompanying envelope, which requires no postage if mailed in the United States. Please mark and mail your proxy or proxies promptly in order to save any additional costs of further proxy solicitations and in order for the Meeting to be held as scheduled.

PIMCO MUNICIPAL INCOME FUND (PMF)

PIMCO CALIFORNIA MUNICIPAL INCOME FUND (PCQ)

PIMCO NEW YORK MUNICIPAL INCOME FUND (PNF)

PIMCO MUNICIPAL INCOME FUND II (PML)

PIMCO CALIFORNIA MUNICIPAL INCOME FUND II (PCK)

PIMCO NEW YORK MUNICIPAL INCOME FUND II (PNI)

PIMCO MUNICIPAL INCOME FUND III (PMX)

PIMCO CALIFORNIA MUNICIPAL INCOME FUND III (PZC)

1633 Broadway

New York, New York 10019

IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE JOINT ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON DECEMBER 19, 2018

This Proxy Statement and the Annual Report to Shareholders for the fiscal year ended December 31, 2017 for PMF, PCQ, PNF, PML, PCK, PNI, PMX and PZC are also available at pimco.com/closedendfunds.

PROXY STATEMENT

October [ ], 2018

FOR THE JOINT ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON DECEMBER 19, 2018

INTRODUCTION

This Proxy Statement is furnished in connection with the solicitation by the Boards of Trustees (each a Board) of the shareholders of each of PIMCO Municipal Income Fund (PMF), PIMCO California Municipal Income Fund (PCQ), PIMCO New York Municipal Income Fund (PNF), PIMCO Municipal Income Fund II (PML), PIMCO California Municipal Income Fund II (PCK), PIMCO New York Municipal Income Fund II (PNI), PIMCO Municipal Income Fund III (PMX) and PIMCO California Municipal Income Fund III (PZC) (each, a Fund and, collectively, the Funds of proxies to be voted at the Joint Annual Meeting of Shareholders of each Fund and any adjournment(s) or

postponement(s) thereof. The term Meeting is used throughout this joint Proxy Statement to refer to the Annual Meeting of Shareholders of each Fund, as dictated by the context. The Meeting will be held

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at the offices of Pacific Investment Management Company LLC (PIMCO or the Manager), at 1633 Broadway, between West 50th and West 51st Streets, 42nd Floor, New York, New York 10019, on Wednesday, December 19, 2018, at 10:30 A.M Eastern Time.

The Notice of Joint Annual Meeting of Shareholders (the Notice), this Proxy Statement and the enclosed proxy cards are first being sent to Shareholders on or about [ ], 2018.

The Meeting is scheduled as a joint meeting of the holders of all shares of the Funds, which consist of holders of common shares of each Fund (the Common Shareholders) and holders of preferred shares, which include Auction Rate Preferred Shares (ARPS) and, for each Fund other than PNF, Variable Rate Municipal Term Preferred Shares (VMTPS), of each Fund (the Preferred Shareholders and, together with the Common Shareholders, the Shareholders). The Shareholders of each Fund are expected to consider and vote on similar matters. The Shareholders of each Fund will vote on whether to elect the Boards nominees for Trustees of the Funds (the Board Nominees) (the Proposal) and on any other matters that may arise for that Fund. The outcome of voting by the Shareholders of one Fund does not affect the outcome for the other Funds.

The Board of each Fund has fixed the close of business on October 19, 2018 as the record date (the Record Date) for the determination of Shareholders of each Fund entitled to notice of, and to vote at, the Meeting. The Shareholders of each Fund on the Record Date will be entitled to one vote per share on each matter to which they are entitled to vote and that is to be voted on by Shareholders of the Fund, and a fractional vote with respect to fractional shares, with no cumulative voting rights in the election of Trustees. The following table sets forth the number of common shares (Common Shares) and preferred shares (Preferred Shares and, together with the Common Shares, the Shares) issued and outstanding of each Fund at the close of business on the Record Date:

	Outstanding Common Shares	**Outstanding Preferred Shares**	
		ARPS	**VMTPS**
PMF	[ ]	6,668	233
PCQ	[ ]	4,825	293
PNF	[ ]	1,641	None
PML	[ ]	11,931	687
PCK	[ ]	5,147	343
PNI	[ ]	2,320	210
PMX	[ ]	6,188	343
PZC	[ ]	3,915	271

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The classes of Shares listed for each Fund in the table above are the only classes of Shares currently authorized by that Fund.

At the Meeting, the election of one Trustee (the Preferred Shares Trustee) of each Fund will be voted on exclusively by the Preferred Shareholders (including holders of ARPS and, for each Fund other than PNF, holders of VMTPS, voting together) of that Fund. Holders of ARPS and VMTPS will be entitled to one vote per share, regardless of the relative liquidation preference of the Preferred Shares. On each other proposal to be brought before the Meeting (including the election of the nominees other than the Preferred Shares Trustee by all Shareholders), the Preferred Shareholders, if any, will have equal voting rights (i.e., one vote per Share) with the applicable Fund s Common Shareholders and will vote together with Common Shareholders as a single class. In connection with the Boards nomination process for the Meeting, all current Trustees voted in favor of the nominations of all Board Nominees standing for re-election.

In addition to the Board Nominees, Dryden Capital, LLC, operating in concert with a hedge fund it manages (Dryden), has given notice of its intent to solicit support for T. Matthew Buffington, one of Dryden s founders, as a competing Preferred Shares Trustee nominee for each Fund (the Dryden Nominee). Dryden is a Preferred Shareholder that owns less than 1% of each Fund s ARPS and that purchased ARPS of certain of the Funds at a substantial discount to their face value as recently as this year. The current Trustees do not support the Dryden Nominee and urge you to vote in favor of re-electing the incumbent preferred share Board Nominees. The current Trustees have worked well together as a Board and have a strong history of actively supporting the interests of the Funds and all of their shareholders.

The Funds Trustees (including the Preferred Share Trustees) have a fiduciary duty to act in the best interests of the Fund, and in carrying out this duty, they must consider the interests of all shareholders, both common and preferred. At each of the Funds regular quarterly meetings, PIMCO provides the Trustees with detailed reports regarding the Funds use of leverage, financing costs, and available leverage alternatives to the Funds ARPS. In this regard, at PIMCO s recommendation, each Fund recently offered all holders of ARPS, including Dryden, an opportunity to tender up to 100% of their ARPS at a price of 85% of the ARPS liquidation preference (i.e., face value) in a tender offer. In considering the interests of all shareholders, the Board determined that this price represented fair value for the ARPS and was in the best interests of the Funds and their shareholders. Although a substantial percentage of ARPS holders participated in the tender offers, Dryden chose not to participate. The Trustees and PIMCO will continue to closely monitor the Funds leverage and consider alternative primary forms of financing that are in the best interests of Funds and their shareholders.

Your current Trustees are experienced and highly qualified fiduciaries who exercise strong fund governance practices. Six of the eight members of the Board of Trustees are not interested persons (within the meaning of Section 2(a)(19) of the Investment Company Act of 1940, as amended (the 1940 Act)) of the Funds or of the Manager. The Trustees have significant current and past related industry experience, and have actively supported the interests of all of the Funds shareholders, both common and preferred. The Board includes individuals with substantial professional accomplishments and prior experience in a variety of fields, as further detailed below. In addition, the Board includes a combination of long-tenured and newer members, bringing diverse perspectives to Fund oversight.

The Funds Trustees urge that you NOT RETURN any proxy card sent to you by Dryden.

PMF/PCQ/PNF/PML/PCK/PNI:

The Common and Preferred Shareholders of each Fund, voting together as a single class, have the right to vote on the re-election of Alan Rappaport and John C. Maney, as Trustees of each Fund. The Preferred Shareholders of each Fund, voting as a separate class, have the right to vote on the re-election of Hans W. Kertess (or his proposed replacement by the Dryden Nominee) as a Trustee of each Fund.

PMX/PZC:

The Common and Preferred Shareholders of each Fund, voting together as a single class, have the right to vote on the re-election of Hans W. Kertess and John C. Maney, as Trustees of each Fund. The Preferred Shareholders of each Fund, voting as a separate class, have the right to vote on the re-election of Alan Rappaport (or his proposed replacement by the Dryden Nominee) as a Trustee of each Fund.

Summary

Proposal	Common Shareholders	Preferred Shareholders
Election of Trustees		
PMF/PCQ/PNF/PML/PCK/PNI		
Re-election of Hans W. Kertess		
Independent Trustees/Nominees*		
Re-election of Alan Rappaport		
Interested Trustees/Nominees		
Re-election of John C. Maney**		

Proposal	Common Shareholders	Preferred Shareholders
PMX/PZC		
Independent Trustees/Nominees*		
Re-election of Hans W. Kertess		
Re-election of Alan Rappaport		
Interested Trustees/Nominees		
Election of John C. Maney**		

* Independent Trustees or Independent Nominees are those Trustees or nominees who are not interested persons, as defined in the 1940 Act, of each Fund.

** Mr. Maney is an Interested Trustee of each Fund, due to his affiliation with Allianz Asset Management of America L.P. and its affiliates.

You may vote by mail by returning a properly executed proxy card, by internet by going to the website listed on the proxy card, by telephone using the toll-free number listed on the proxy card, or in person by attending the Meeting. Shares represented by duly executed and timely delivered proxies will be voted as instructed on the proxy. If you execute and mail the enclosed proxy and no choice is indicated for the election of Trustees listed in the attached Notice, your proxy will be voted in favor of the election of all nominees. At any time before it has been voted, your proxy may be revoked in one of the following ways: (i) by timely delivering a signed, written letter of revocation to the Secretary of the applicable Fund at 1633 Broadway, New York, New York 10019, (ii) by properly executing and timely submitting a later-dated proxy vote, or (iii) by attending the Meeting and voting in person. Please call [1-(866) 406-2288] for information on how to obtain directions to be able to attend the Meeting and vote in person or for information or assistance regarding how to vote by telephone, mail or by internet. If any proposal, other than the Proposal set forth herein, properly comes before the Meeting, the persons named as proxies will vote in their sole discretion.

The principal executive offices of the Funds are located at 1633 Broadway, New York, New York 10019. PIMCO serves as the investment manager of each Fund. Additional information regarding the Manager may be found under Additional Information Investment Manager below.

The solicitation will be primarily by mail and by telephone and the cost of soliciting proxies for each Fund will be borne by PIMCO. Certain officers of the Funds and certain officers and employees of the Manager or its affiliates (none of whom will receive additional compensation therefor) may solicit proxies by telephone, mail, e-mail and personal interviews. In addition, AST Fund Solutions LLC (AST) has been engaged to assist in the solicitation of proxies and

manage the Funds overall proxy campaign. While the fees received by AST will vary based on the level of additional solicitation necessary to achieve quorum and shareholder approval of the current Trustees recommendations (and may be increased in connection with the potential Dryden proposal mentioned above), the fees paid to AST are estimated to be between approximately $19,500 and $23,500 per Fund. The actual amount of these expenses will vary depending on a number of factors. Any out-of-pocket expenses incurred in connection with the solicitation will be borne by PIMCO.

Unless a Fund receives contrary instructions, only one copy of this Proxy Statement will be mailed to a given address where two or more Shareholders share that address and also share the same surname. Additional copies of the Proxy Statement will be delivered promptly upon request. Requests may be sent to the Secretary of the Fund c/o Pacific Investment Management Company LLC, 1633 Broadway, New York, New York 10019, or by calling 1-(866) 406-2288 on any business day.

[As of the record date, the Trustees, nominees and the officers of each Fund as a group and individually beneficially owned less than one percent (1%) of each Fund s outstanding Shares.] To the knowledge of the Funds, the following entities beneficially owned more than five percent (5%) of a class of shares of a Fund:

Beneficial Owner	**Fund**	**Percentage of Ownership of Class**
UBS AG Bahnhofstrasse 45, PO Box CH-8021 Zurich, Switzerland	PMF	[ ]% of Preferred Shares
UBS AG Bahnhofstrasse 45, PO Box CH-8021 Zurich, Switzerland	PCQ	[ ]% of Preferred Shares
First Trust Portfolios L.P. 120 East Liberty Drive, Suite 400 Wheaton, Illinois 60187	PCQ	[ ]% of Preferred Shares
Wells Fargo & Company 420 Montgomery Street San Francisco, CA 94104	PCQ	[ ]% of Preferred Shares
UBS AG Bahnhofstrasse 45, PO Box CH-8021 Zurich, Switzerland	PNF	[ ]% of Preferred Shares
Bank of America Corporation 100 North Tryon Street, Charlotte, North Carolina 28255	PNF	[ ]% of Preferred Shares

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Beneficial Owner	Fund	Percentage of Ownership of Class
First Trust Portfolios L.P. 120 East Liberty Drive, Suite 400 Wheaton, Illinois 60187	PNF	[ ]% of Preferred Shares
UBS AG Bahnhofstrasse 45, PO Box CH-8021 Zurich, Switzerland	PML	[ ]% of Preferred Shares
First Trust Portfolios L.P. 120 East Liberty Drive, Suite 400 Wheaton, Illinois 60187	PML	[ ]% of Preferred Shares
Wells Fargo & Company 420 Montgomery Street San Francisco, CA 94104	PML	[ ]% of Preferred Shares
UBS AG Bahnhofstrasse 45, PO Box CH-8021 Zurich, Switzerland	PCK	[ ]% of Preferred Shares
Bank of America Corporation 100 North Tryon Street, Charlotte, North Carolina 28255	PCK	[ ]% of Preferred Shares
RiverNorth Capital Management, LLC 325 N. LaSalle Street, Suite 645 Chicago, IL 60654-7030	PCK	[ ]% of Preferred Shares
Wells Fargo & Company 420 Montgomery Street San Francisco, CA 94104	PCK	[ ]% of Preferred Shares
UBS AG Bahnhofstrasse 45, PO Box CH-8021 Zurich, Switzerland	PNI	[ ]% of Preferred Shares
Bank of America Corporation 100 North Tryon Street,	PNI	[ ]% of Preferred Shares

Charlotte, North Carolina 28255		
Wells Fargo & Company 420 Montgomery Street San Francisco, CA 94104	PNI	[ ]% of Preferred Shares
UBS AG Bahnhofstrasse 45, PO Box CH-8021 Zurich, Switzerland	PMX	[ ]% of Preferred Shares
Wells Fargo & Company 420 Montgomery Street San Francisco, CA 94104	PMX	[ ]% of Preferred Shares

Beneficial Owner	Fund	Percentage of Ownership of Class
UBS AG Bahnhofstrasse 45, PO Box CH-8021 Zurich, Switzerland	PZC	[ ]% of Preferred Shares
Wells Fargo & Company 420 Montgomery Street San Francisco, CA 94104	PZC	[ ]% of Preferred Shares

PROPOSAL: ELECTION OF TRUSTEES

In accordance with each Fund s Amended and Restated Agreement and Declaration of Trust (each, a Declaration), the Trustees have been divided into the following three classes (each a Class): Class I, Class II and Class III. The Nominating Committee and the Board of each applicable Fund recommends that the Shareholders of the applicable Funds re-elect the Board Nominees listed herein as Trustees.

PMF/PCQ/PNF/PML/PCK/PNI. With respect to PMF, PCQ, PNF, PML, PCK and PNI, the term of office of the Class I Trustees will expire at the Meeting; the term of office of the Class II Trustees will expire at the annual meeting of Shareholders during the 2019 fiscal year (*i.e.*, the annual meeting held during the fiscal year running from January 1, 2019 through December 31, 2019); and the term of office of the Class III Trustees will expire at the annual meeting of Shareholders held during the 2020 fiscal year (*i.e.*, the annual meeting during the fiscal year running from January 1, 2020 through December 31, 2020). Currently, Hans W. Kertess, Alan Rappaport and John C. Maney are Class I Trustees. The Nominating Committee of each Fund has recommended to the Board that Messrs. Rappaport and Maney be nominated for re-election by the Common Shareholders and Preferred Shareholders, voting as a single class, as Class I Trustees, and that Mr. Kertess be nominated for re-election by the Preferred Shareholders, voting as a separate class, as a Class I Trustee. In addition, Dryden has given notice of its intent to nominate T. Matthew Buffington for election by the Preferred Shareholders, voting as a separate class, as a Class I Trustee at the Meeting for the seat currently held by Mr. Kertess. Consistent with each Fund s Declaration, if re-elected, the nominees shall hold office for terms coinciding with the Classes of Trustees to which they have been designated. Therefore, if re-elected at the Meeting, Messrs. Kertess, Rappaport and Maney will serve terms consistent with the Class I Trustees, which will expire at each Fund s annual meeting of Shareholders held during the 2021 fiscal year (*i.e.*, the annual meeting held during the fiscal year running from January 1, 2021 through December 31, 2021).

PMX/PZC. With respect to PMX and PZC, the term of office of the Class I Trustees will expire at the Meeting; the term of office of the Class II Trustees will expire at the annual meeting of Shareholders during the 2019 fiscal year (*i.e.*, the annual meeting held during the fiscal year running from January 1, 2019 through December 31, 2019); and the term of office of the Class III Trustees will expire at the annual meeting of Shareholders held during the 2020 fiscal year (*i.e.*, the annual meeting during the fiscal year running from January 1, 2020 through December 31, 2020). Currently, Hans W. Kertess, Alan Rappaport and John C. Maney are Class I Trustees. The Nominating Committee of each Fund has recommended to the Board that Messrs. Kertess and Maney be nominated for re-election by the Common Shareholders and Preferred Shareholders, voting as a single class, as Class I Trustees, and that Mr. Rappaport be nominated for re-election by the Preferred Shareholders, voting as a separate class, as a Class I Trustee. In addition, Dryden has given notice of its intent to nominate T. Matthew Buffington for election by the Preferred Shareholders, voting as a separate class, as a Class I Trustee at the Meeting for the seat currently held by Mr. Rappaport. Consistent with each Fund s Declaration, if re-elected, the Board Nominees shall hold office for terms coinciding with the Classes of Trustees to which they have been designated. Therefore, if re-elected at the Meeting, Messrs. Rappaport, Maney and Kertess will serve terms consistent with the Class I Trustees, which will expire at each Fund s annual meeting of Shareholders held during the 2021 fiscal year (*i.e.*, the annual meeting held during the fiscal year running from January 1, 2021 through December 31, 2021).

All current members of the Board of each Fund are (and Messrs. Kertess, Maney, and Rappaport, if re-elected, will remain) Continuing Trustees, as such term is defined in the Declaration of the applicable Fund. The Dryden nominee, if elected, would not be a Continuing Trustee. In the case of PMF, PCQ and PNF, a Continuing Trustee is a Trustee that is not a person or an affiliated person of a person who is entering into or proposing to enter into certain transactions with the applicable Fund, as specified in such Fund s Declaration, and who has either served as a Trustee for a period of at least twelve months or is a successor to a Continuing Trustee and has been recommended to succeed a Continuing Trustee by a majority of the Continuing Trustees then members of the Board. In the case of PML, PCK, PNI, PMX and PZC, a Continuing Trustee is a Trustee that has either served as Trustee since the inception of the Fund or for thirty-six months, or has been nominated by at least a majority of the Continuing Trustees then members of the Board.

At any annual meeting of Shareholders, any Trustee elected to fill a vacancy that has arisen since the preceding annual meeting of Shareholders (whether or not such vacancy has been filled by election of a new Trustee by the Board) shall hold office for a term that coincides with the term (or any remaining term) of the

Class of Trustees to which such office was previously assigned, if such vacancy arose other than by an increase in the number of Trustees, and until his or her successor shall be elected and shall qualify. In the event such vacancy arose due to an increase in the number of Trustees, any Trustee so elected to fill such vacancy at an annual meeting shall hold office for a term which coincides with that of the Class of Trustee to which such office has been apportioned and until his or her successor shall be elected and shall qualify.

The following table summarizes the Board Nominees who will stand for re-election at the Meeting, the respective Classes of Trustees to which they have been designated and the expiration of their respective terms if re-elected:

Trustee/Nominee	Class	Expiration of Term if Elected/Re-Elected*
PMF/PCQ/PNF/PML/PCK/PNI/PMX/PZC		
Hans W. Kertess	Class I	Annual Meeting held during the 2021 fiscal year
Alan Rappaport	Class I	Annual Meeting held during the 2021 fiscal year
John C. Maney**	Class I	Annual Meeting held during the 2021 fiscal year

* A Trustee elected or re-elected at an annual meeting shall hold office until the annual meeting for the year in which his or her term expires and until his or her successor shall be elected and shall qualify, subject, however, to prior death, resignation, retirement, disqualification or removal from office.

** Mr. Maney is an Interested Trustee/Nominee.

Under this classified Board structure, generally only those Trustees in a single Class may be replaced in any one year, and it would require a minimum of two years to change a majority of the Board under normal circumstances. This structure, which may be regarded as an anti-takeover provision, may make it more difficult for a Fund s Shareholders to change the majority of Trustees of the Fund and, thus, promotes the continuity of management.

Under each Fund s Bylaws, the Trustees may increase the size of the Board between shareholder meetings and fill a vacancy created by such increase. In the event that Messrs. Kertess and/or Rappaport are not re-elected by Preferred Shareholders of each Fund, as applicable, the Board of that Fund may increase its size to add one or more non-Preferred Shares Trustee positions, and may determine to appoint Messrs. Kertess and/or Rappaport to fill a vacancy. In such event, any Trustee added to the Board would be subject to election by Shareholders at the annual meeting of Shareholders held during the 2019 fiscal year, regardless of the Class of Trustee to which he or she is assigned.

Unless authority is withheld, it is the intention of the persons named in the enclosed proxy for a Fund to vote each proxy for the persons listed above for that Fund. Each of the Board Nominees has indicated he will serve if elected, but if

he should be unable to serve for a Fund, the proxy holders may vote in favor of such substitute nominee as the Board may designate (or, alternatively, the Board may determine to leave a vacancy).

Trustees and Officers

The business of each Fund is managed under the direction of the Fund s Board. Subject to the provisions of each Fund s Declaration, its Bylaws and applicable state law, the Trustees have all powers necessary and convenient to carry out their responsibilities, including the election and removal of the Fund s officers.

Board Leadership Structure Currently, and assuming the Board Nominees are elected as proposed, the Board of Trustees of each Fund consists and will continue to consist of eight Trustees, six of whom are Independent Trustees. An Independent Trustee serves as Chairman of the Trustees and is selected by a vote of the majority of the Independent Trustees. The Chairman of the Trustees presides at meetings of the Board and acts as a liaison with service providers, officers, attorneys and other Trustees generally between meetings, and performs such other functions as may be requested by the Board from time to time.

The Board of each Fund meets regularly four times each year to discuss and consider matters concerning the Funds, and also holds special meetings to address matters arising between regular meetings. The Independent Trustees regularly meet outside the presence of management and are advised by independent legal counsel. Regular meetings generally take place in-person; other meetings may take place in-person or by telephone.

The Board has established six standing Committees to facilitate oversight of the management of the Funds: the Audit Oversight Committee, the Nominating Committee, the Valuation Oversight Committee, the Compensation Committee, the Contracts Committee and the Performance Committee. The functions and role of each Committee are described below under Board Committees and Meetings. The membership of each Committee consists of all of the Independent Trustees, which the Board believes allows them to participate in the full range of the Board s oversight duties. In addition, the Performance Committee consists of all the Trustees.

The Board reviews its leadership structure periodically and has determined that this leadership structure, including an Independent Chairman, a supermajority of Independent Trustees and Committee membership limited to Independent Trustees (with the exception of the Performance Committee), is

appropriate in light of the characteristics and circumstances of each Fund. In reaching this conclusion, the Board considered, among other things, the predominant role of the Manager in the day-to-day management of Fund affairs, the extent to which the work of the Board is conducted through the Committees, the number of portfolios overseen by the Board that are advised by the Manager or have an investment adviser that is an affiliated person of the Manager (the Fund Complex), the variety of asset classes those portfolios include, the assets of each Fund and other portfolios overseen by the Board in the Fund Complex and the management and other service arrangements of each Fund and such other portfolios. The Board also believes that its structure, including the presence of two Trustees who are executives with the Manager or Manager-affiliated entities, facilitates an efficient flow of information concerning the management of each Fund to the Independent Trustees.

Risk Oversight Each of the Funds has retained the Manager to provide investment advisory services and administrative services. Accordingly, the Manager is immediately responsible for the management of risks that may arise from Fund investments and operations. Some employees of the Manager serve as the Funds officers, including the Funds principal executive officer and principal financial and accounting officer, chief compliance officer and chief legal officer. The Manager and the Funds other service providers have adopted policies, processes, and procedures to identify, assess and manage different types of risks associated with each Fund s activities. The Board oversees the performance of these functions by the Manager and the Funds other service providers, both directly and through the Committee structure it has established. The Board receives from the Manager a wide range of reports, both on a regular and as-needed basis, relating to the Funds activities and to the actual and potential risks of the Funds. These include reports on investment and market risks, custody and valuation of Fund assets, compliance with applicable laws, and the Funds financial accounting and reporting. In addition, the Board meets periodically with the individual portfolio managers of the Funds or their delegates to receive reports regarding the portfolio management of the Funds and their performance, including their investment risks. In the course of these meetings and discussions with the Manager, the Board has emphasized the importance of maintaining vigorous risk-management programs and procedures.

In addition, the Board has appointed a Chief Compliance Officer (CCO). The CCO oversees the development of compliance policies and procedures that are reasonably designed to minimize the risk of violations of the federal securities laws (Compliance Policies). The CCO reports directly to the Independent Trustees, interacts with individuals within the Manager s organization and provides presentations to the Board at its quarterly meetings and an annual report on the application of the Compliance Policies. The Board

periodically discusses relevant risks affecting the Funds with the CCO at these meetings. The Board has approved the Compliance Policies and reviews the CCO s reports. Further, the Board annually reviews the sufficiency of the Compliance Policies, as well as the appointment and compensation of the CCO.

The Board recognizes that the reports it receives concerning risk management matters are, by their nature, typically summaries of the relevant information. Moreover, the Board recognizes that not all risks that may affect the Funds can be identified in advance; that it may not be practical or cost-effective to eliminate or mitigate certain risks; that it may be necessary to bear certain risks (such as investment-related risks) in seeking to achieve the Funds investment objectives; and that the processes, procedures and controls employed to address certain risks may be limited in their effectiveness.

Information Regarding Trustees and Board Nominees.

The following table provides information concerning the Trustees/Board Nominees of the Funds.

Name, Address, Year of Birth and Class*	Position(s) Held with the Funds	Term of Office and Length of Time Served	Principal Occupation(s) During the Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee/ Nominee	Other Directorships Held by Trustee/ Nominee During the Past 5 Years
Independent Trustees/Nominees					
Hans W. Kertess 1939 PMF/PCQ/PNF/PML/PCK/PNI/PMX/PZC- Class I	Chairman of the Board, Trustee, Nominee	PMF/ PCQ/ PNF- Since 2001 PML/ PCK/ PNI- Since 2002 PMX/ PZC- Since 2003	President, H. Kertess & Co., a financial advisory company; and Senior Adviser (formerly Managing Director), Royal Bank of Canada Capital Markets (since 2004).	91	None

Name, Address, Year of Birth and Class*	Position(s) Held with the Funds	Term of Office and Length of Time Served	Principal Occupation(s) During the Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee/ Nominee	Other Directorships Held by Trustee/ Nominee During the Past 5 Years
Deborah A. DeCotis 1952 PMF/PCQ/PNF/PML/PCK/PNI Class II PMX/PZC Class III	Trustee	PMF/PCQ/ PNF/PML/ PCK/PNI/ PMX/PZC- Since 2011	Advisory Director, Morgan Stanley & Co., Inc. (since 1996); Member, Circle Financial Group (since 2009); and Member, Council on Foreign Relations (since 2013); Trustee, Smith College (since 2017); and Director, Watford Re (since 2017). Formerly, Co-Chair Special Projects Committee, Memorial Sloan Kettering (2005-2015); Trustee, Stanford University (2010- 2015); Principal, LaLoop LLC, a retail accessories company (1999-2014); Director, Helena Rubenstein Foundation (1997-2010); and Director, Armor Holdings (2002-2010).	91	None

Name, Address, Year of Birth and Class*	Position(s) Held with the Funds	Term of Office and Length of Time Served	Principal Occupation(s) During the Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee/ Nominee	Other Directorships Held by Trustee/ Nominee During the Past 5 Years
Bradford K. Gallagher 1944 PMF/PCQ/PNF/PML/PCK/PNI Class III PMX/PZC Class II	Trustee	Since 2010	Retired. Founder, Spyglass Investments LLC, a private investment vehicle (since 2001). Formerly, Chairman and Trustee, The Common Fund (2005-2014); Partner, New Technology Ventures Capital Management LLC, a venture capital fund (2011-2013); Chairman and Trustee, Atlantic Maritime Heritage Foundation (2007-2012); and Founder, President and CEO, Cypress Holding Company and Cypress Tree Investment Management Company (1995-2001).	91	Formerly, Chairman and Trustee of Grail Advisors ETF Trust (2009-2010) and Trustee of Nicholas-Applegate Institutional Funds (2007-2010).
James A. Jacobson 1945 PMF/PCQ/PNF/PML/PCK/PNI/PMX/PZC-Class II	Trustee	Since 2009	Retired. Trustee (since 2002) and Chairman of Investment Committee (since 2007), Ronald McDonald House of New York; and Trustee, New Jersey City University (since 2014). Formerly, Vice Chairman and Managing Director, Spear, Leeds & Kellogg Specialists, LLC, a specialist firm on the New York Stock Exchange (2003-2008).	91	Formerly, Trustee, Alpine Mutual Funds Complex consisting of 18 funds.

Name, Address, Year of Birth and Class*	Position(s) Held with the Funds	Term of Office and Length of Time Served	Principal Occupation(s) During the Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee/ Nominee	Other Directorships Held by Trustee/ Nominee During the Past 5 Years
William B. Ogden, IV 1945 PMF/PCQ/PNF/PML/PCK/PNI/PMX/PZC-Class III	Trustee	Since 2006	Retired. Formerly, Asset Management Industry Consultant; and Managing Director, Investment Banking Division of Citigroup Global Markets Inc.	91	None

Name, Address, Year of Birth and Class*	Position(s) Held with the Funds	Term of Office and Length of Time Served	Principal Occupation(s) During the Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee/ Nominee	Other Directorships Held by Trustee/ Nominee During the Past 5 Years
Alan Rappaport 1953 PMF/PCQ/PNF/PML/PCK/PNI/PMX/PZC- Class I	Trustee, Nominee	Since 2010	Advisory Director (formerly Vice Chairman), Roundtable Investment Partners (since 2009); Adjunct Professor, New York University Stern School of Business (since 2011); Lecturer, Stanford University Graduate School of Business (since 2013); and Director, Victory Capital Holdings, Inc., an asset management firm (since 2013). Formerly, Member of Board of Overseers, NYU Langone Medical Center (2015-2016). Formerly, Trustee, American Museum of Natural History (2005-2015); Trustee, NYU Langone Medical Center (2007-2015); Vice Chairman (formerly Chairman and President), U.S. Trust (formerly Private Bank of Bank of America, the predecessor entity of U.S. Trust) (2001-2008).	91	None

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Name, Address, Year of Birth and Class*	Position(s) Held with the Funds	Term of Office and Length of Time Served	Principal Occupation(s) During the Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee/ Nominee	Other Directorships Held by Trustee/ Nominee During the Past 5 Years
Interested Trustees					
Craig A. Dawson** 1968 650 Newport Center Drive, Newport Beach, CA 92660 PMF/PCQ/PNF/PML/PCK/PNI/ PMX/PZC- Class III	Trustee	Since 2014	Managing Director and Head of PIMCO Europe, Middle East and Africa (since 2016). Director of a number of PIMCO s Europeans investment vehicles and affiliates (since 2008). Formerly, Head of Strategic Business Management, PIMCO (2014-2016), head of PIMCO s Munich office and head of European product management for PIMCO.	27	None

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Name, Address, Year of Birth and Class*	Position(s) Held with the Funds	Term of Office and Length of Time Served	Principal Occupation(s) During the Past 5 Years	Number of Portfolios in Fund Complex Overseen by Trustee/ Nominee	Other Directorships Held by Trustee/ Nominee During the Past 5 Years
John C. Maney*** 1959 650 Newport Center Drive, Newport Beach, CA 92660 PMF/PCQ/PNF/PML/PCK/PNI/ PMX/PZC-Class I	Trustee, Nominee	Since 2006	Managing Director of Allianz Asset Management of America L.P. (since January 2005) and a member of the Management Board and Chief Operating Officer of Allianz Asset Management of America L.P. (since November 2006) and a Non-Executive Director and a member of the Compensation Committee of PIMCO Europe Ltd (since December 2017). Formerly, Member of the Management Board of Allianz Global Investors Fund Management LLC (2007-2014) and Managing Director of Allianz Global Investors Fund Management LLC (2011-2014).	27	None

* Unless otherwise indicated, the business address of the persons listed above is c/o Pacific Investment Management Company LLC, 1633 Broadway, New York, New York 10019.

** Mr. Dawson is an Interested Trustee of each Fund due to his affiliation with PIMCO and its affiliates.

*** Mr. Maney is an Interested Trustee of each Fund due to his affiliation with Allianz Asset Management of America L.P. and its affiliates.

The following table states the dollar range of equity securities beneficially owned as of the Record Date by each Trustee and Board Nominee of each Fund and, on an aggregate basis, of any registered investment companies overseen by the Trustees in the family of investment companies, including the Funds.

Name of Trustee/ Board Nominee	Dollar Range of Equity Securities in the Funds*	Aggregate Dollar Range of Equity Securities in All Registered Investment Companies Overseen by Trustee/ Board Nominee in the Family of Investment Companies*
Independent Trustees/Board Nominees		
Hans W. Kertess	[None]	[Over $100,000]
Deborah A. DeCotis	[None]	[Over $100,000]
Bradford K. Gallagher	[None]	[Over $100,000]
James A. Jacobson	[None]	[Over $100,000]
William B. Ogden, IV	[$50,000 - $100,000 (PMF)] [$50,000 - $100,000 (PML)]	[Over $100,000]
Alan Rappaport	[$10,001 - $ 50,000 (PML)]	[Over $100,000]
Interested Trustees/Board Nominees		
John C. Maney	None	Over $100,000
Craig A. Dawson	None	Over $100,000

* Securities are valued as of the Record Date.

To the knowledge of the Funds, as of the Record Date, Trustees and Board Nominees who are Independent Trustees or Independent nominees and their immediate family members did not own securities of an investment adviser or principal underwriter of the Funds or a person (other than a registered investment company) directly or indirectly controlling, controlled by, or under common control with an investment adviser or principal underwriter of the Funds.

Mr. Ogden owns a less than 1% limited liability company interest in PIMCO Global Credit Opportunity Onshore Fund LLC, a PIMCO-sponsored private investment vehicle.

Compensation. Each of the Independent Trustees also serves as a trustee of PCM Fund, Inc., PIMCO Corporate & Income Strategy Fund, PIMCO Corporate & Income Opportunity Fund, PIMCO Income Opportunity Fund, PIMCO Dynamic Credit and Mortgage Income Fund, PIMCO Dynamic Income Fund, PIMCO Income Strategy Fund, PIMCO Income Strategy Fund II, PIMCO High Income Fund, PIMCO New York Municipal Fund III, PIMCO Strategic Income Fund, Inc. and PIMCO Global StocksPLUS® & Income Fund, each a closed-end fund for which the Manager serves as investment manager (together

with the Funds, the PIMCO Closed-End Funds), as well as PIMCO Flexible Credit Income Fund and PIMCO Flexible Municipal Income Fund, each a closed end management investment company that is operated as an interval fund for which the Manager serves as investment manager (the PIMCO Interval Funds), and PIMCO Managed Accounts Trust (PMAT), an open-end management investment company with multiple series for which the Manager serves as investment adviser and administrator (together with the PIMCO Closed-End Funds and the PIMCO Interval Funds, the PIMCO-Managed Funds).

In addition, each of the Independent Trustees also serves as a trustee of AllianzGI Diversified Income & Convertible Fund, AllianzGI Convertible & Income Fund, AllianzGI Convertible & Income Fund II, AllianzGI NFJ Dividend, Interest & Premium Strategy Fund, AllianzGI Equity & Convertible Income Fund, AllianzGI Convertible & Income 2024 Target Term Fund, Allianz Funds, Allianz Funds Multi-Strategy Trust, AllianzGI Institutional Multi-Series Trust and Premier Multi-Series VIT (together, the Allianz-Managed Funds), for which Allianz Global Investors U.S. LLC (AllianzGI U.S.), an affiliate of PIMCO, serves as investment manager. The Independent Trustees receive separate compensation from the Allianz-Managed Funds in addition to amounts received for service on the Boards of the PIMCO-Managed Funds.

As indicated below, certain of the officers of the Funds are affiliated with the Manager.

Each of the PIMCO-Managed Funds holds joint meetings of their Boards of Trustees whenever possible. Each Independent Trustee currently receives annual compensation of $225,000 for his or her service on the Boards of the PIMCO-Managed Funds, payable quarterly. The Independent Chairman of the Boards receives an additional $75,000 per year, payable quarterly. The Audit Oversight Committee Chairman receives an additional $50,000 annually, payable quarterly. Trustees are also reimbursed for meeting-related expenses.

Each Trustee s compensation for his or her service as a Trustee on the Boards of the PIMCO-Managed Funds and other costs in connection with joint meetings of such Funds are allocated among the PIMCO-Managed Funds, as applicable, on the basis of fixed percentages as among PMAT, the PIMCO Closed-End Funds and the PIMCO Interval Funds. Trustee compensation and other costs are then further allocated pro rata among the individual funds within each grouping based on each such fund s relative net assets.

The Funds have no employees. The Funds officers, Mr. Dawson and Mr. Maney are compensated by the Manager or its affiliates, as applicable.

The Trustees do not currently receive any pension or retirement benefits from the Funds or the Fund Complex.

The following table provides information concerning the compensation paid to the Trustees and Board Nominees for the fiscal year ended December 31, 2017. For the calendar year ended December 31, 2017, the Trustees received the compensation set forth in the table below for serving as Trustees of the Funds and other funds in the same Fund Complex as the Funds. Each officer and each Trustee who is a director, officer, partner, member or employee of the Manager, or of any entity controlling, controlled by or under common control with the Manager, including any Interested Trustee, serves without any compensation from the Funds.

Compensation Table

Name of Trustee/ Board Nominees	Aggregate Compensation from PMF for the Fiscal Year Ended December 31, 2017	Aggregate Compensation from PCQ for the Fiscal Year Ended December 31, 2017	Aggregate Compensation from PNF for the Fiscal Year Ended December 31, 2017	Aggregate Compensation from PML for the Fiscal Year Ended December 31, 2017	Aggregate Compensation from PCK for the Fiscal Year Ended December 31, 2017
Independent Trustee/Nominee					
Hans W. Kertess	$ [ ]	$ [ ]	$ [ ]	$ [ ]	$ [ ]
Bradford K. Gallagher	$ [ ]	$ [ ]	$ [ ]	$ [ ]	$ [ ]
James A. Jacobson	$ [ ]	$ [ ]	$ [ ]	$ [ ]	$ [ ]
William B. Ogden, IV	$ [ ]	$ [ ]	$ [ ]	$ [ ]	$ [ ]
Alan Rappaport	$ [ ]	$ [ ]	$ [ ]	$ [ ]	$ [ ]
Deborah A. DeCotis	$ [ ]	$ [ ]	$ [ ]	$ [ ]	$ [ ]
Interested Trustee/Board Nominee					
John C. Maney	$ 0	$ 0	$ 0	$ 0	$ 0
Craig A. Dawson**	$ 0	$ 0	$ 0	$ 0	$ 0

Name of Trustee/Board Nominees	Aggregate Compensation from PNI for the Fiscal Year Ended December 31, 2017	Aggregate Compensation from PMX for the Fiscal Year Ended December 31, 2017	Aggregate Compensation from PZC for the Fiscal Year Ended December 31, 2017	Total Compensation from the Funds and Fund Complex Paid to Trustees/ Nominees for the Calendar Year Ended December 31, 2017*
Independent Trustee/Board Nominee				
Hans W. Kertess	$ [ ]	$ [ ]	$ [ ]	$ 470,000
Bradford K. Gallagher	$ [ ]	$ [ ]	$ [ ]	$ 460,000
James A. Jacobson	$ [ ]	$ [ ]	$ [ ]	$ 535,000
William B. Ogden, IV	$ [ ]	$ [ ]	$ [ ]	$ 535,000
Alan Rappaport	$ [ ]	$ [ ]	$ [ ]	$ 465,000
Deborah A. DeCotis	$ [ ]	$ [ ]	$ [ ]	$ 470,000
Interested Trustee/Nominee				
John C. Maney**	$ 0	$ 0	$ 0	$ 0
Craig A. Dawson**	$ 0	$ 0	$ 0	$ 0

* In addition to the PIMCO-Managed Funds, which are advised by the Manager, during each Fund s most recently completed calendar year, all of the Trustees (other than Messrs. Dawson and Maney) served as trustees of the Allianz-Managed Funds, which are managed by AllianzGI U.S., an affiliate of PIMCO. The Allianz-Managed Funds and the PIMCO-Managed Funds are considered to be in the same Fund Complex. Ms. DeCotis and Messrs. Kertess, Gallagher, Jacobson, Ogden and Rappaport currently serve as trustee or director of 91 funds in the Fund Complex. Mr. Maney and Mr. Dawson currently serve as trustee or director of 27 funds in the Fund Complex. For the calendar year ended December 31, 2017, amounts received by the Trustees from PIMCO-Managed Funds were: for Mr. Kertess, $300,000; for Mr. Jacobson, $275,000; for each of Messrs. Gallagher, Ogden, and Rappaport and Ms. DeCotis, $225,000. These amounts are included in the Fund Complex totals in the table above

** Neither Mr. Dawson nor Mr. Maney receives compensation from the Funds.

Trustee Qualifications The Board has determined that each current Trustee and Board Nominee is qualified to serve as a Trustee based on several factors (none of which alone is decisive). Each current Trustee and Board Nominee has served as a Trustee for several years. Accordingly, each current Trustee and Board Nominee is knowledgeable about the Funds business and service provider arrangements and has also served for several years as trustee or director to a number of other investment companies advised by the Manager and/or its affiliates. Among the factors the Board considered when concluding that an individual is qualified to serve on the Board were the following: (i) the

individual s business and professional experience and accomplishments; (ii) the individual s ability to work effectively with other members of the Board; (iii) the individual s prior experience, if any, serving on the boards of public companies (including, where relevant, other investment companies) and other complex enterprises and organizations; and (iv) how the individual s skills, experiences and attributes would contribute to an appropriate mix of relevant skills and experience on the Board.

In respect of each current Trustee and/or Board Nominee, the individual s substantial professional accomplishments and prior experience, including, in some cases, in fields related to the operations of the Funds, were a significant factor in the determination by the Board that the individual is qualified to serve as a Trustee of the Funds. The following is a summary of various qualifications, experiences and skills of each Trustee (in addition to business experience during the past five years set forth in the table above) that contributed to the Board s conclusion that an individual is qualified to serve on the Board. References to qualifications, experiences and skills are not intended to hold out the Board or individual Trustees as having any special expertise or experience, and shall not impose any greater responsibility or liability on any such person or on the Board by reason thereof.

Hans W. Kertess Mr. Kertess has substantial executive experience in the investment management industry. He is the president of a financial advisory company, H. Kertess & Co. and a Senior Adviser of Royal Bank of Canada Capital Markets, and formerly served as a Managing Director of Royal Bank of Canada Capital Markets. He has significant expertise in the investment banking industry.

Craig A. Dawson Mr. Dawson has substantial executive experience in the investment management industry. Mr. Dawson is a Managing Director and Head of PIMCO Europe, Middle East and Africa. In that role he is in charge of guiding PIMCO s business initiatives in Europe, the Middle East and Africa. Prior to taking on this position, Mr. Dawson was PIMCO s Head of Strategic Business Management. Mr. Dawson also serves as a Director of a number of PIMCO s European investment vehicles and affiliates. Because of his familiarity with PIMCO and its affiliates, Mr. Dawson serves as an important information resource for the Independent Trustees and as a facilitator of communication with PIMCO.

Deborah A. DeCotis Ms. DeCotis has substantial senior executive experience in the investment banking industry, having served as a Managing Director for Morgan Stanley. She has extensive board experience and experience in oversight of investment management functions through her experience as a former Director of the Helena Rubenstein Foundation, Stanford Graduate School of Business and Armor Holdings.

Bradford K. Gallagher Mr. Gallagher has substantial executive and board experience in the financial services and investment management industries. He has served as director to several other investment companies. Having served on the Operating Committee of Fidelity Investments and as a Managing Director and President of Fidelity Investments Institutional Services Company, he provides the Funds with significant asset management industry expertise. He also brings significant securities industry experience, having served as a developer and founder of several enterprises and private investment vehicles.

James A. Jacobson Mr. Jacobson has substantial executive and board experience in the financial services industry. He served for more than 15 years as a senior executive at a New York Stock Exchange (the NYSE) specialist firm. He has also served on the NYSE Board of Directors, including terms as Vice Chair. As such, he provides significant expertise on matters relating to portfolio brokerage and trade execution. He also provides the Funds with significant financial expertise, serves as the Audit Oversight Committee s Chair and has been determined by the Board to be an audit committee financial expert.

John C. Maney Mr. Maney has substantial executive and board experience in the investment management industry. He has served in a variety of senior-level positions with investment advisory firms affiliated with the Manager. Because of his familiarity with the Manager and affiliated entities, he serves as an important information resource for the Independent Trustees and as a facilitator of communication with Allianz Asset Management of America L.P., PIMCO s U.S. parent company.

William B. Ogden, IV Mr. Ogden has substantial senior executive experience in the investment banking industry. He served as Managing Director at Citigroup, where he established and led the firm s efforts to raise capital for, and provide mergers and acquisition advisory services to, asset managers and investment advisers. He also has significant expertise with fund products through his senior-level responsibility for originating and underwriting a broad variety of such products.

Alan Rappaport Mr. Rappaport has substantial senior executive experience in the financial services industry. He formerly served as Chairman and President of the Private Bank of Bank of America and as Vice Chairman of U.S. Trust. He is currently an Advisory Director of an investment firm.

Board Committees and Meetings.

Audit Oversight Committee. The Board of each Fund has established an Audit Oversight Committee in accordance with Section 3(a)(58)(A) of the

Securities Exchange Act of 1934, as amended (the Exchange Act). Each Fund s Audit Oversight Committee currently consists of Messrs. Gallagher, Jacobson, Kertess, Ogden, Rappaport and Ms. DeCotis, each of whom is an Independent Trustee. Mr. Jacobson is the current Chair of each Fund s Audit Oversight Committee. Each Fund s Audit Oversight Committee provides oversight with respect to the internal and external accounting and auditing procedures of each Fund and, among other things, determines the selection of the independent registered public accounting firm for each Fund and considers the scope of the audit, approves all audit and permitted non-audit services proposed to be performed by those auditors on behalf of each Fund, and approves non-audit services to be performed by the auditors for certain affiliates, including the Manager and entities in a control relationship with the Manager that provide services to each Fund where the engagement relates directly to the operations and financial reporting of the Fund. The Committee considers the possible effect of those services on the independence of the Funds independent registered public accounting firm. Each member of each Fund s Audit Oversight Committee is independent, as independence for audit committee members is defined in the currently applicable listing standards of the NYSE, on which the Common Shares of each Fund are listed.

The Board of each Fund has adopted a written charter for its Audit Oversight Committee. A copy of the written charter for each Fund, as amended through February 24, 2017, is attached to this Proxy Statement as Exhibit A. A report of the Audit Oversight Committee of each Fund, dated February 26, 2018, is attached to this Proxy Statement as Exhibit C.

Nominating Committee. The Board of each Fund has established a Nominating Committee composed solely of Independent Trustees, currently consisting of Messrs. Gallagher, Jacobson, Kertess, Ogden, Rappaport and Ms. DeCotis. The Nominating Committee is responsible for reviewing and recommending qualified candidates to the Board in the event that a position is vacated or created or when Trustees are to be re-elected. The Nominating Committee of each Fund has adopted a charter, which is attached to this Proxy Statement as Exhibit B.

Each member of each Fund s Nominating Committee is independent, as independence for nominating committee members is defined in the currently applicable listing standards of the NYSE, on which the Common Shares of each Fund are listed.

Qualifications, Evaluation and Identification of Trustees/Board Nominees. The Nominating Committee of each Fund requires that Trustee candidates have a college degree or equivalent business experience. When

evaluating candidates, each Fund s Nominating Committee may take into account a wide variety of factors including, but not limited to: (i) availability and commitment of a candidate to attend meetings and perform his or her responsibilities on the Board, (ii) relevant industry and related experience, (iii) educational background, (iv) ability, judgment and expertise and (v) overall diversity of the Board s composition. The process of identifying nominees involves the consideration of candidates recommended by one or more of the following sources: (i) the Fund s current Trustees, (ii) the Fund s officers, (iii) the Fund s investment adviser, (iv) shareholders of the Fund, and (v) any other source the Committee deems to be appropriate. The Nominating Committee of each Fund may, but is not required to, retain a third party search firm at a Fund s expense to identify potential candidates.

Consideration of Candidates Recommended by Shareholders. The Nominating Committee of each Fund will review and consider nominees recommended by Shareholders to serve as Trustees, provided that the recommending Shareholder follows the Procedures for Shareholders to Submit Nominee Candidates for the PIMCO Sponsored Closed-End Funds, which are set forth as Appendix B to the Funds Nominating Committee Charter, attached to this Proxy Statement as Exhibit B. Among other requirements, these procedures provide that the recommending Shareholder must submit any recommendation in writing to the Fund, to the attention of the Fund s Secretary, at the address of the principal executive offices of the Fund and that such submission must be received at such offices not less than 45 days nor more than 75 days prior to the date of the Board or shareholder meeting at which the nominee would be elected. Any recommendation must include certain biographical and other information regarding the candidate and the recommending Shareholder, and must include a written and signed consent of the candidate to be named as a nominee and to serve as a Trustee if elected. The foregoing description of the requirements is only a summary. Please refer to Appendix B to the Nominating Committee Charter for each Fund, which is attached to this Proxy Statement as Exhibit B for details.

The Nominating Committee has full discretion to reject nominees recommended by Shareholders, and there is no assurance that any such person properly recommended and considered by the Committee will be nominated for election to the Board of each Fund.

Diversity. The Nominating Committee takes diversity of a particular nominee and overall diversity of the Board into account when considering and evaluating nominees for Trustee. While the Committee has not adopted a particular definition of diversity, when considering a nominee s and the Board s diversity, the Committee generally considers the manner in which each

nominee s professional experience, education, expertise in matters that are relevant to the oversight of the Funds (*e.g.*, investment management, distribution, accounting, trading, compliance, legal), general leadership experience, and life experience are complementary and, as a whole, contribute to the ability of the Board to oversee the Funds.

Valuation Oversight Committee. The Board of each Fund has established a Valuation Oversight Committee currently consisting of Messrs. Gallagher, Jacobson, Kertess, Ogden and Rappaport and Ms. DeCotis. Mr. Ogden is the Chair of each Fund s Valuation Oversight Committee. The Valuation Oversight Committee has been delegated responsibility by the Board for overseeing determination of the fair value of each Fund s portfolio securities and other assets on behalf of the Board in accordance with the Funds valuation procedures. The Valuation Oversight Committee of each Fund reviews and approves procedures for the fair valuation of the Fund s portfolio securities and periodically reviews information from the Manager regarding fair value determinations made pursuant to Board-approved procedures, and makes related recommendations to the full Board and assists the full Board in resolving particular fair valuation and other valuation matters. In certain circumstances as specified in the Funds valuation policies, the Valuation Oversight Committee may also determine the fair value of portfolio holdings after consideration of all relevant factors, which determinations shall be reported to the full Board.

Compensation Committee. The Board of each Fund has established a Compensation Committee currently consisting of Messrs. Gallagher, Jacobson, Kertess, Ogden, Rappaport and Ms. DeCotis. The Compensation Committee meets as the Board deems necessary to review and make recommendations regarding compensation payable to the Trustees of the Fund who are not directors, officers, partners or employees of the Manager or any entity controlling, controlled by or under common control with the Manager.

Contracts Committee. The Board of each Fund has established a Contracts Committee currently consisting of Messrs. Gallagher, Jacobson, Kertess, Ogden, Rappaport and Ms. DeCotis. Ms. DeCotis is the Chair of each Fund s Contracts Committee. The Contracts Committee meets as the Board deems necessary to review the performance of, and the reasonableness of the fees paid to, as applicable, the Funds investment adviser(s) and any sub-adviser(s), administrators(s) and principal underwriters(s) and to make recommendations to the Board regarding the approval and continuance of each Fund s contractual arrangements for investment advisory, sub-advisory, administrative and distribution services, as applicable.

Performance Committee. The Board has established a Performance Committee, which consists of Messrs. Gallagher, Jacobson, Kertess, Ogden,

Rappaport, Maney and Dawson and Ms. DeCotis. Mr. Rappaport is the Chair of the Performance Committee. The Performance Committee s responsibilities include reviewing the performance of the Funds and any changes in investment philosophy, approach and personnel of the Funds Manager. The Performance Committee was established on March 23, 2017 to handle these responsibilities that have been performed to date by the full Board and held its initial meeting in September 2017.

Meetings. With respect to each Fund, during the fiscal year ended December 31, 2017, the Board of Trustees held four regular meetings and two special meetings. The Audit Oversight Committee met in separate session six times, the Nominating Committee met in separate session one time, the Valuation Oversight Committee met in separate session four times, the Compensation Committee met in separate session one time and the Contracts Committee met in separate session three times. The Performance Committee met in separate session two times during the fiscal year ended December 31, 2017. Each Trustee attended in person or *via* teleconference at least 75% of the regular meetings of the Board and meetings of the committees on which such Trustee served for each Fund that were held during the fiscal year ended December 31, 2017.

The Trustees generally do not attend the annual shareholder meetings.

Shareholder Communications with the Board of Trustees. The Board of Trustees of each Fund has adopted procedures by which Shareholders may send communications to the Board. Shareholders may mail written communications to the Board to the attention of the Board of Trustees, [name of Fund], c/o Joshua D. Ratner, Vice President, Secretary and Chief Legal Officer (CLO), Pacific Investment Management Company LLC, 1633 Broadway, New York, New York 10019. Shareholder communications must (i) be in writing and be signed by the Shareholder and (ii) identify the class and number of Shares held by the Shareholder. The CLO of each Fund or his designee is responsible for reviewing properly submitted shareholder communications. The CLO shall either (i) provide a copy of each properly submitted shareholder communication to the Board at its next regularly scheduled Board meeting or (ii) if the CLO determines that the communication requires more immediate attention, forward the communication to the Trustees promptly after receipt. The CLO may, in good faith, determine that a shareholder communication should not be provided to the Board because it does not reasonably relate to a Fund or its operations, management, activities, policies, service providers, Board, officers, shareholders or other matters relating to an investment in a Fund or is otherwise routine or ministerial in nature. These procedures do not apply to (i) any communication from an officer or Trustee of a Fund, (ii) any communication from an employee or agent of a Fund, unless such communication is made solely in such employee s or agent s capacity as a

shareholder, or (iii) any shareholder proposal submitted pursuant to Rule 14a-8 under the Exchange Act or any communication made in connection with such a proposal. A Fund s Trustees are not required to attend the Fund s annual shareholder meetings or to otherwise make themselves available to shareholders for communications, other than by the aforementioned procedures.

Section 16(a) Beneficial Ownership Reporting Compliance. Each Fund s Trustees and certain officers, investment adviser, certain affiliated persons of the investment adviser and persons who beneficially own more than 10% of any class of outstanding securities of a Fund (*i.e*., a Fund s Common Shares or Preferred Shares) are required to file forms reporting their affiliation with the Fund and reports of ownership and changes in ownership of the Fund s securities with the Securities and Exchange Commission (the SEC) and the NYSE. These persons and entities are required by SEC regulation to furnish each Fund with copies of all such forms they file. Based solely on a review of these forms furnished to each Fund during the most recently concluded fiscal year, each Fund believes that each of the Trustees and officers, investment adviser and relevant affiliated persons of the investment adviser and the persons who beneficially own more than 10% of any class of outstanding securities of the Fund has complied with all applicable filing requirements during each Fund s respective fiscal year.

Required Vote. The re-election of Messrs. Rappaport and Maney to the Board of PMF, PCQ, PNF, PML, PCK and PNI will require the affirmative vote of a plurality of the votes of the Common Shareholders and Preferred Shareholders (voting together as a single class) of the relevant Fund cast in the election of Trustees at the Meeting, in person or by proxy. The re-election of Mr. Kertess or the election of the Dryden Nominee to the Board of PMF, PCQ, PNF, PML, PCK and PNI will require the affirmative vote of a plurality of the votes of the Preferred Shareholders (voting as a separate class) of the relevant Fund cast in the election of Preferred Shares Trustees at the Meeting, in person or by proxy. The re-election of Messrs. Kertess and Maney to the Board of PMX and PZC will require the affirmative vote of a plurality of the votes of the Common Shareholders and Preferred Shareholders (voting together as a single class) of the relevant Fund cast in the election of Trustees at the Meeting, in person or by proxy. The re-election of Mr. Rappaport or the election of the Dryden Nominee to the Board of PMF, PCQ, PNF, PML, PCK and PNI will require the affirmative vote of a plurality of the votes of the Preferred Shareholders (voting as a separate class) of the relevant Fund cast in the election of Preferred Shares Trustees at the Meeting, in person or by proxy.

THE BOARD OF TRUSTEES OF EACH FUND UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THIS PROPOSAL AND THE BOARD NOMINEES FOR EACH FUND.

ADDITIONAL INFORMATION

Executive and Other Officers of the Funds. The table below provides certain information concerning the executive officers of the Funds and certain other officers who perform similar duties. Officers of the Funds hold office at the pleasure of the relevant Board and until their successors are chosen and qualified, or in each case until he or she sooner dies, resigns, is removed with or without cause or becomes disqualified. Officers and employees of the Funds who are principals, officers, members or employees of the Manager are not compensated by the Funds.

Name, Address and Year of Birth	Position(s) Held with Funds	Term of Office and Length of Time Served	Principal Occupation(s) During the Past 5 Years
Peter G. Strelow[1] 1970	President	Since 2014	Managing Director and Co-Chief Operating Officer, PIMCO. President, PIMCO-Managed Funds, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Formerly, Chief Administrative Officer, PIMCO.
Keisha Audain-Pressley[2] 1975	Chief Compliance Officer	Since 2018	Senior Vice President and Deputy Chief Compliance Officer, PIMCO. Chief Compliance Officer, PIMCO-Managed Funds.
Joshua D. Ratner[2] 1976	Vice President, Secretary and Chief Legal Officer	Since 2014	Executive Vice President and Deputy General Counsel, PIMCO. Chief Legal Officer, PIMCO Investments LLC. Vice President, Secretary and Chief Legal Officer, PIMCO-Managed Funds. Vice President Senior Counsel, Secretary, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.

Name, Address and Year of Birth	Position(s) Held with Funds	Term of Office and Length of Time Served	Principal Occupation(s) During the Past 5 Years
Stacie D. Anctil[1] 1969	Vice President	Since 2015	Executive Vice President, PIMCO. Vice President, PIMCO-Managed Funds, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
William G. Galipeau[1] 1974	Vice President	Since 2017	Executive Vice President, PIMCO. Vice President, PIMCO-Managed Funds, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
Eric D. Johnson[1] 1970	Vice President	Since 2014	Executive Vice President, PIMCO. Vice President, PIMCO-Managed Funds, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
Bijal Parikh[1] 1978	Vice President	Since 2017	Senior Vice President, PIMCO. Vice President, PIMCO-Managed Funds, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust and PIMCO Equity Series.
Ryan Leshaw[1] 1980	Assistant Secretary	Since 2014	Senior Vice President and Senior Counsel, PIMCO. Assistant Secretary, PIMCO-Managed Funds, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Formerly, Associate, Willkie Farr & Gallagher LLP.

Name, Address and Year of Birth	Position(s) Held with Funds	Term of Office and Length of Time Served	Principal Occupation(s) During the Past 5 Years
Wu-Kwan Kit[1] 1981	Assistant Secretary	Since 2017	Vice President and Counsel, PIMCO. Assistant Secretary, PIMCO-Managed Funds, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Formerly, Assistant General Counsel, VanEck Associates Corp.
Trent W. Walker[1] 1974	Treasurer	Since 2017	Executive Vice President, PIMCO. Treasurer, PIMCO-Managed Funds, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
Erik C. Brown[2] 1967	Assistant Treasurer	Since 2015	Executive Vice President, PIMCO. Assistant Treasurer, PIMCO-Managed Funds, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.
Jason J. Nagler[2] 1982	Assistant Treasurer	Since 2015	Vice President, PIMCO. Assistant Treasurer, PIMCO-Managed Funds, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Formerly, Head of Mutual Fund Reporting, GMO, and Assistant Treasurer, GMO Trust and GMO Series Trust Funds.
Christopher M. Morin[1] 1980	Assistant Treasurer	Since 2016	Senior Vice President, PIMCO. Assistant Treasurer, PIMCO-Managed Funds, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT.

Name, Address and Year of Birth	Position(s) Held with Funds	Term of Office and Length of Time Served	Principal Occupation(s) During the Past 5 Years
Colleen Miller[2] 1980	Assistant Treasurer	Since 2017	Senior Vice President, PIMCO. Assistant Treasurer, PIMCO-Managed Funds, PIMCO Funds, PIMCO Variable Insurance Trust, PIMCO ETF Trust, PIMCO Equity Series and PIMCO Equity Series VIT. Formerly, Vice President Cohen & Steers Capital Management.

1 The address of these officers is Pacific Investment Management Company LLC, 650 Newport Center Drive, Newport Beach, California 92660.

2 The address of these officers is Pacific Investment Management Company LLC, 1633 Broadway, New York, New York 10019.

Each of the Funds executive officers is an interested person of each Fund (as defined in Section 2(a)(19) of the 1940 Act) as a result of his or her position(s) set forth in the table above.

Investment Manager. The Manager serves as the investment manager of the Funds. Subject to the supervision of the Board, the Manager is responsible for managing the investment activities of the Funds and the Funds business affairs and other administrative matters. The Manager is located at 650 Newport Center Drive, Newport Beach, CA, 92660. The Manager is a majority-owned indirect subsidiary of Allianz SE, a publicly traded European insurance and financial services company.

Independent Registered Public Accounting Firm. The Audit Oversight Committee of each Fund s Board and the full Board of each Fund unanimously selected PricewaterhouseCoopers LLP (PwC) as the independent registered public accounting firm for the fiscal year ending December 31, 2018 for the Funds. PwC served as the independent registered public accounting firm of each Fund for the fiscal year ended December 31, 2017 and also serves as the independent registered public accounting firm of various other investment companies for which the Manager serves as investment adviser. PwC is located at 300 Madison Avenue, New York, New York 10017. None of the Funds knows of any direct financial or material indirect financial interest of PwC in the Funds. A representative of PwC, if requested by any Shareholder, will be present at the Meeting *via* telephone to respond to appropriate questions from Shareholders and will have an opportunity to make a statement if he or she chooses to do so.

Pre-approval Policies and Procedures. Each Fund s Audit Oversight Committee has adopted written policies relating to the pre-approval of audit and permitted non-audit services to be performed by the Fund s independent registered public accounting firm. Under the policies, on at least an annual basis, a Fund s Audit Oversight Committee reviews and pre-approves proposed audit and permitted non-audit services to be performed by the independent registered public accounting firm on behalf of the Fund.

In addition, each Fund s Audit Oversight Committee pre-approves at least annually any permitted non-audit services (including audit-related services) to be provided by the independent registered public accounting firm to the Manager and any entity controlling, controlled by, or under common control with the Manager that provides ongoing services to the Fund (together, the Accounting Affiliates), provided, in each case, that the engagement relates directly to the operations and financial reporting of the Fund. Although the Audit Oversight Committee does not pre-approve all services provided by the independent registered public accounting firm to Accounting Affiliates (for instance, if the engagement does not relate directly to the operations and financial reporting of the Fund), the Committee receives an annual report from the independent registered public accounting firm showing the aggregate fees paid by Accounting Affiliates for such services.

Each Fund s Audit Oversight Committee may also from time to time pre-approve individual non-audit services to be provided to the Fund or an Accounting Affiliate that were not pre-approved as part of the annual process described above. A member of the Audit Oversight Committee to whom this responsibility has been delegated (a Designated Member) may also pre-approve these individual non-audit services, provided that the fee for such services does not exceed a pre-determined dollar threshold. Any such pre-approval by the Designated Member is reported to the full Audit Oversight Committee for ratification at its next regularly scheduled meeting.

The pre-approval policies provide for waivers of the requirement that the Audit Oversight Committee pre-approve permitted non-audit services provided to the Funds or their Accounting Affiliates pursuant to de minimis exceptions described in Section 10A of the Exchange Act and applicable regulations (referred to herein as the de minimis exception).

Audit Fees. Audit Fees are fees related to the audit and review of the financial statements included in annual reports and registration statements, and other services that are normally provided in connection with statutory and regulatory filings or engagements. For each Fund s last two fiscal years as

reflected below, the Audit Fees billed by PwC to the Fund or to PIMCO with respect to the Fund are shown in the table below:

Fund	Fiscal Year Ended	Audit Fees
PMF	December 31, 2017	$ 38,543
	December 31, 2016	$ 31,160
PCQ	December 31, 2017	$ 38,543
	December 31, 2016	$ 31,160
PNF	December 31, 2017	$ 33,223
	December 31, 2016	$ 25,840
PML	December 31, 2017	$ 46,295
	December 31, 2016	$ 38,912
PCK	December 31, 2017	$ 38,543
	December 31, 2016	$ 31,160
PNI	December 31, 2017	$ 33,223
	December 31, 2016	$ 25,840
PMX	December 31, 2017	$ 38,543
	December 31, 2016	$ 31,160
PZC	December 31, 2017	$ 34,743
	December 31, 2016	$ 27,360

Audit-Related Fees. Audit-Related Fees are fees related to assurance and related services that are reasonably related to the performance of the audit or review of financial statements, but not reported under Audit Fees above, and that include accounting consultations, attestation reports, comfort letters, and agreed-upon procedure reports (inclusive of annual review of basic maintenance testing associated with the Preferred Shares for the Funds), if applicable. The table below shows, for each Fund s last two fiscal years as reflected below, the Audit-Related Fees billed by PwC to the Fund or to PIMCO with respect to the Fund. During those fiscal years, there were no Audit-Related Fees billed by PwC to the Funds Accounting Affiliates for audit-related services related directly to the operation and financial reporting of the Funds.

Fund	Fiscal Year Ended	Audit-Related Fees
PMF	December 31, 2017	$ 9,500
	December 31, 2016	$ 9,500
PCQ	December 31, 2017	$ 9,500
	December 31, 2016	$ 9,500
PNF	December 31, 2017	$ 9,500
	December 31, 2016	$ 9,500
PML	December 31, 2017	$ 9,500
	December 31, 2016	$ 9,500

Fund	Fiscal Year Ended	Audit-Related Fees
PCK	December 31, 2017	$ 9,500
	December 31, 2016	$ 9,500
PNI	December 31, 2017	$ 9,500
	December 31, 2016	$ 9,500
PMX	December 31, 2017	$ 9,500
	December 31, 2016	$ 9,500
PZC	December 31, 2017	$ 9,500
	December 31, 2017	$ 9,500

Tax Fees. Tax Fees are fees associated with tax compliance, tax advice and tax planning, including services relating to the filing or amendment of federal, state or local income tax returns, regulated investment company qualification reviews, and tax distribution and analysis reviews. The table below shows, for each Fund s last two fiscal years as reflected below, the aggregate Tax Fees billed by PwC to the Fund or to PIMCO with respect to the Fund. During those fiscal years, there were no Tax Fees billed by PwC to the Funds Accounting Affiliates for tax-related services related directly to the operation and financial reporting of the Funds.

Fund	Fiscal Year Ended	Tax Fees
PMF	December 31, 2017	$ 1,300
	December 31, 2016	$
PCQ	December 31, 2017	$ 1,300
	December 31, 2016	$
PNF	December 31, 2017	$ 1,300
	December 31, 2016	$
PML	December 31, 2017	$ 1,300
	December 31, 2016	$
PCK	December 31, 2017	$ 1,300
	December 31, 2016	$
PNI	December 31, 2017	$ 1,300
	December 31, 2016	$
PMX	December 31, 2017	$ 1,300
	December 31, 2016	$
PZC	December 31, 2017	$ 1,300
	December 31, 2016	$

All Other Fees. All Other Fees are fees related to services other than those reported above under Audit Fees, Audit-Related Fees and Tax Fees. For each Fund s last two fiscal years, no such fees were billed by PwC to the Fund or the Fund s Accounting Affiliates.

During the periods indicated in the tables above, no services described under Audit-Related Fees, Tax Fees or All Other Fees were approved pursuant to the de minimis exception.

Aggregate Non-Audit Fees. The aggregate non-audit fees billed by PwC, during each Fund s last two fiscal years as reflected below, for services rendered to each Fund and the Fund s Accounting Affiliates are shown in the table below.

Fund	Fiscal Year Ended	Aggregate Non-Audit Fees for Fund	Non-Audit Fees for Accounting Affiliates	Aggregate Non-Audit Fees*
PMF	December 31, 2017	$ 10,800	$ 6,271,517	$ 6,282,317
	December 31, 2016	$ 9,500	$ 6,210,720	$ 6,220,220
PCQ	December 31, 2017	$ 10,800	$ 6,271,517	$ 6,282,317
	December 31, 2016	$ 9,500	$ 6,210,720	$ 6,220,220
PNF	December 31, 2017	$ 10,800	$ 6,271,517	$ 6,282,317
	December 31, 2016	$ 9,500	$ 6,210,720	$ 6,220,220
PML	December 31, 2017	$ 10,800	$ 6,271,517	$ 6,282,317
	December 31, 2016	$ 9,500	$ 6,210,720	$ 6,220,220
PCK	December 31, 2017	$ 10,800	$ 6,271,517	$ 6,282,317
	December 31, 2016	$ 9,500	$ 6,210,720	$ 6,220,220
PNI	December 31, 2017	$ 10,800	$ 6,271,517	$ 6,282,317
	December 31, 2016	$ 9,500	$ 6,210,720	$ 6,220,220
PMX	December 31, 2017	$ 10,800	$ 6,271,517	$ 6,282,317
	December 31, 2016	$ 9,500	$ 6,210,720	$ 6,220,220
PZC	December 31, 2017	$ 10,800	$ 6,271,517	$ 6,282,317
	December 31, 2016	$ 9,500	$ 6,210,720	$ 6,220,220

* Includes the sum of the Aggregate Non-Audit Fees for Fund and the Non-Audit Fees for Accounting Affiliates as noted in the columns to the left.

The table below shows a breakdown of the fees billed by PwC to each Fund, or to PIMCO with respect to each Fund, for the most recently completed fiscal year attributable the following categories: 1) Audit Fees, 2) Audit-Related Fees, 3) Tax Compliance/Preparation fees and 4) All Other Fees, as well as the percentage of the total fees billed attributable to the All Other Fees category.

	PMF (Fiscal Year Ended December 31, 2017)	PCQ (Fiscal Year Ended December 31, 2017)	PNF (Fiscal Year Ended December 31, 2017)	PML (Fiscal Year Ended December 31, 2017)	PCK (Fiscal Year Ended December 31, 2017)	PNI (Fiscal Year Ended December 31, 2017)	PMX (Fiscal Year Ended December 31, 2017)	PZC (Fiscal Year Ended December 31, 2017)
Audit Fees	$ 38,543	$ 38,543	$ 33,223	$ 46,295	$ 38,543	$ 33,223	$ 38,543	$ 34,743
Audit-Related Fees	$ 9,500	$ 9,500	$ 9,500	$ 9,500	$ 9,500	$ 9,500	$ 9,500	$ 9,500
Tax Compliance/ Tax Return Preparation Fees	$ 1,300	$ 1,300	$ 1,300	$ 1,300	$ 1,300	$ 1,300	$ 1,300	$ 1,300

	PMF (Fiscal Year Ended December 31, 2017)	PCQ (Fiscal Year Ended December 31, 2017)	PNF (Fiscal Year Ended December 31, 2017)	PML (Fiscal Year Ended December 31, 2017)	PCK (Fiscal Year Ended December 31, 2017)	PNI (Fiscal Year Ended December 31, 2017)	PMX (Fiscal Year Ended December 31, 2017)	PZC (Fiscal Year Ended December 31, 2017)
All Other Fees	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0	$ 0
Percentage of Total Fees attributable to All Other Fees	0%	0%	0%	0%	0%	0%	0%	0%

Each Fund s Audit Oversight Committee has determined that the provision by PwC of non-audit services to the Fund s Accounting Affiliates that were not pre-approved by the Committee was compatible with maintaining the independence of PwC as the Fund s principal auditors.

Other Business. As of the date of this Proxy Statement, each Fund s officers and the Manager know of no business to come before the Meeting other than as set forth in the Notice. If any other business is properly brought before the Meeting, the persons named as proxies will vote in their sole discretion.

Quorum, Adjournments and Methods of Tabulation. A quorum for each Fund at the Meeting will consist of the presence in person or by proxy of thirty percent (30%) of the total Shares of the Fund entitled to vote at such Meeting, except that, where the Preferred Shares or Common Shares will vote as separate classes, then 30% of the shares of each class entitled to vote will be necessary to constitute a quorum for the transaction of business by that class. By way of clarification, in the case of Preferred Shares voting as a separate class, 30% of the total number of ARPS and VMTPS entitled to vote (regardless of the relative liquidation preference of the shares) will be necessary to constitute a quorum. If the quorum required for a Proposal has not been met, the persons named as proxies may propose adjournment of the Meeting with respect to such Proposal and, if adjournment is proposed, will vote all Shares that they are entitled to vote in favor of such adjournment. Any adjournments with respect to the Proposal for a Fund will require the affirmative vote of a plurality of the Shares of the relevant Fund entitled to vote thereon present in person or represented by proxy at the session of the Meeting to be adjourned. However, where the Preferred Shares or Common Shares will vote as separate classes, the affirmative vote of a plurality of shares of the applicable class present in person or by proxy at the session of the Meeting to be adjourned will be necessary to adjourn the Meeting with respect to that class. The costs of any additional solicitation and of any adjourned session will be borne by PIMCO under its investment management agreement with the Funds. Any proposals properly before the Meeting for which sufficient favorable votes have been received by the time of the Meeting will be acted upon and such action will be final regardless of whether the Meeting is adjourned to permit additional solicitation with respect to any other proposal

with respect to which a quorum has not been reached. In certain circumstances in which a Fund has received sufficient votes to approve a matter being recommended for approval by the Fund s Board, the Fund may request that brokers and nominee entities, in their discretion, withhold or withdraw submission of broker non-votes in order to avoid the need for solicitation of additional votes in favor of the proposal.

Votes cast by proxy or in person at the Meeting will be counted by persons appointed by the Funds as tellers (the Tellers) for the Meeting. For purposes of determining the presence of a quorum for each Fund, the Tellers will include the total number of Shares present at the Meeting in person or by proxy, including Shares represented by proxies that reflect abstentions and broker non-votes (*i.e.*, shares held by brokers or nominees as to which instructions have not been received from the beneficial owners or the persons entitled to vote and the broker or nominee does not have the discretionary voting power on a particular matter). For a proposal requiring approval of a plurality of votes cast, such as the election of Trustees, abstentions and broker non-votes will have no effect on the outcome of such a Proposal.

Reports to Shareholders. Below are the dates on or about which the Annual Reports to Shareholders for the most recently completed fiscal year of each Fund were mailed:

Fund	Mail Date for Annual Report to Shareholders for the Most Recently Completed Fiscal Year
PMF/PCQ/PNF/PML/PCK/PNI/PMX/PZC	March [ ], 2018

Additional copies of the Funds Annual Reports and Semi-Annual Reports may be obtained without charge from the Funds by calling 1-(844)-337-4626 or by visiting the Funds website at pimco.com/closedendfunds.

Shareholder Proposals for the Annual Meeting held during the 2019 Fiscal Year. It is currently anticipated that each Fund s next annual meeting of Shareholders after the Meeting addressed in this Proxy Statement will be held in December 2019. Proposals of Shareholders intended to be presented at that annual meeting of each Fund must be received by each Fund no later than [ ], 2019 for inclusion in each Fund s proxy statement and proxy cards relating to that meeting. The submission by a Shareholder of a proposal for inclusion in the proxy materials does not guarantee that it will be included. Shareholder proposals are subject to certain requirements under the federal securities laws and must be submitted in accordance with the applicable Fund s Bylaws.

Shareholders submitting any other proposals (including proposals to elect Trustee nominees) for each Fund intended to be presented at the annual meeting held during the 2018 fiscal year (*i.e*., other than those to be included in the Fund s proxy materials) must ensure that such proposals are received by each Fund, in good order and complying with all applicable legal requirements and requirements set forth in each Fund s Bylaws. Each Fund s Bylaws provide that any such proposal must be received in writing by each Fund not less than 45 days nor more than 60 days prior to the first anniversary date of the date on which each Fund first mailed its proxy materials for the prior year s shareholder meeting; provided that, if, in accordance with applicable law, the upcoming shareholder meeting is set for a date that is not within 30 days from the anniversary of each Fund s prior shareholder meeting, such proposal must be received by the later of the close of business on (i) the date 45 days prior to such upcoming shareholder meeting date or (ii) the 10th business day following the date such upcoming shareholder meeting date is first publicly announced or disclosed. Assuming the next annual meeting is ultimately scheduled to be within 30 days of the December 19 anniversary of this year s meeting, such proposals must be received no earlier than [ ], 2019 and no later than [ ], 2019 for each Fund. If a Shareholder who wishes to present a proposal fails to notify the Fund within these dates described above, the proxies solicited for the meeting will be voted on the Shareholder s proposal, if it is properly brought before the meeting, in accordance with the judgment of the persons named in the enclosed proxy card(s). If a Shareholder makes a timely notification, the proxies may still exercise discretionary voting authority under circumstances consistent with the SEC s proxy rules. Shareholder proposals should be addressed to the attention of the Secretary of the applicable Fund, at the address of the principal executive offices of the Fund, with a copy to David C. Sullivan, Ropes & Gray LLP, Prudential Tower, 800 Boylston Street, Boston, Massachusetts 02199-3600.

PLEASE EXECUTE AND RETURN THE ENCLOSED PROXY CARDS PROMPTLY TO ENSURE THAT A QUORUM IS PRESENT AT THE APPLICABLE ANNUAL MEETING. A SELF-ADDRESSED, POSTAGE-PAID ENVELOPE IS ENCLOSED FOR YOUR CONVENIENCE.

October [ ], 2018

Exhibit A to Proxy Statement

PIMCO Sponsored Closed-End Funds

Audit Oversight Committee Charter

(Adopted as of January 14, 2004,

as amended through February 24, 2017)

The Board of Trustees (each a Board) of each of the registered investment companies listed in Appendix A hereto (each, a Fund and, collectively, the Funds), as the same may be periodically updated, has adopted this Charter to govern the activities of the Audit Oversight Committee (the Committee) of the particular Board with respect to its oversight of the Fund. This Charter applies separately to each Fund and its particular Board and Committee, and shall be interpreted accordingly. This Charter supersedes and replaces any audit committee charter previously adopted by the Board or a committee of the Board.

Statement of Purpose and Functions

The Committee s general purpose is to oversee the Fund s accounting and financial reporting policies and practices and its internal controls, including by assisting with the Board s oversight of the integrity of the Fund s financial statements, the Fund s compliance with legal and regulatory requirements, the qualifications and independence of the Fund s independent auditors, and the performance of the Fund s internal control systems and independent auditors. The Committee s purpose is also to prepare reports required by Securities and Exchange Commission rules to be included in the Fund s annual proxy statements, if any.

The Committee s function is oversight. While the Committee has the responsibilities set forth in this Charter, it is not the responsibility of the Committee to plan or conduct audits, to prepare or determine that the Fund s financial statements are complete and accurate and are in accordance with generally accepted accounting principles, or to assure compliance with laws, regulations or any internal rules or policies of the Fund. Fund management is responsible for Fund accounting and the implementation and maintenance of the Fund s internal control systems, and the independent auditors are responsible for conducting a proper audit of the Fund s financial statements. Members of the Committee are not employees of the Funds and, in serving on this Committee, are not, and do not hold themselves out to be, acting as accountants or auditors. As such, it is not the duty or responsibility of the Committee or its members to conduct field work or other types of auditing or accounting reviews or procedures.

Each member of the Committee shall be entitled to rely on (i) the integrity of those persons and organizations within management and outside the Fund from which the Committee receives information and (ii) the accuracy of financial and other information provided to the Committee by such persons or organizations absent actual knowledge to the contrary.

Membership

The Committee shall be comprised of as many trustees as the Board shall determine, but in any event not less than three (3) Trustees. Each member of the Committee must be a member of the Board. The Board may remove or replace any member of the Committee at any time in its sole discretion. One or more members of the Committee may be designated by the Board as the Committee s chairman or co- chairman, as the case may be.

Each member of the Committee may not be an interested person of the Fund, as defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended (the Investment Company Act), and must otherwise satisfy the standards for independence of an audit committee member of an investment company issuer as set forth in Rule 10A-3(b) (taking into account any exceptions to those requirements set forth in such rule) under the Securities Exchange Act of 1934, as amended, and under applicable listing standards of the New York Stock Exchange (the NYSE). Each member of the Committee must be financially literate (or must become so within a reasonable time after his or her appointment to the Committee) and at least one member of the Committee must have accounting or related financial management expertise, in each case as the Board interprets such qualification in its business judgment under NYSE listing standards.

Responsibilities and Duties

The Committee s policies and procedures shall remain flexible to facilitate the Committee s ability to react to changing conditions and to generally discharge its functions. The following describe areas of attention in broad terms. The Committee shall:

1. Determine the selection, retention or termination of the Fund s independent auditors based on an evaluation of their independence and the nature and performance of the audit and any permitted non-audit services. Decisions by the Committee concerning the selection, retention or termination of the independent auditors shall be submitted to the Board for ratification in accordance with the requirements of Section 32(a) of the Investment Company Act. The Fund s independent auditors must report directly to the Committee,

which shall be responsible for resolution of disagreements between management and the independent auditors relating to financial reporting.

2. To consider the independence of the Fund s independent auditors at least annually, and in connection therewith receive on a periodic basis formal written disclosures and letters from the independent auditors as required by the applicable rules of the Public Company Accounting Oversight Board (the PCAOB).

3. To the extent required by applicable regulations, pre-approve (i) all audit and permitted non-audit services rendered by the independent auditors to the Fund and (ii) all non-audit services rendered by the independent auditors to the Fund s investment advisers (including sub-advisers) and to certain of the investment advisers affiliates.

The Committee may implement policies and procedures by which such services are approved other than by the full Committee.

4. Review and approve the fees charged by the independent auditors to the Fund, the investment advisers and certain affiliates of the investment advisers for audit, audit- related and permitted non-audit services.

5. If and to the extent that the Fund intends to have employees, set clear policies for the hiring by the Fund of employees or former employees of the Fund s independent auditors.

6. Obtain and review at least annually a report from the independent auditors describing (i) the accounting firm s internal quality-control procedures and (ii) any material issues raised (a) by the accounting firm s most recent internal quality-control review or peer review or (b) by any governmental or other professional inquiry or investigation performed within the preceding five years respecting one or more independent audits carried out by the firm, and any steps taken to address any such issues.

7. Review with the Fund s independent auditors arrangements for and the scope of the annual audit and any special audits, including the form of any opinion proposed to be rendered to the Board and shareholders of the Fund.

8. Meet with management and the independent auditors to review and discuss the Fund s annual audited financial statements, including a review of any specific disclosures of management s discussion of the Fund s investment performance; and, with respect to the Fund s audited financial statements, discuss with the independent auditors matters required by the applicable rules of

the PCAOB and any other matters required to be reported to the Committee under applicable law; and provide a statement whether, based on its review of the Fund s audited financial statements, the Committee recommends to the Board that the audited financial statements be included in the Fund s Annual Report.

Meet with management to review and discuss the Fund s unaudited financial statements included in the semi-annual report, including, if any, a review of any specific disclosure of management s discussion of the Fund s investment performance.

9. Discuss with management and the independent auditors the Fund s unaudited financial statements.

10. Review with the independent auditors any audit problems or difficulties encountered in the course of their audit work and management s responses thereto.

11. Review with management and, as applicable, with the independent auditors the Fund s accounting and financial reporting policies, practices and internal controls, management s guidelines and policies with respect to risk assessment and risk management, including the effect on the Fund of any recommendation of changes in accounting principles or practices by management or the independent auditors.

12. Discuss with management any press releases discussing the Fund s investment performance and other financial information about the Fund, as well as any financial information provided by management to analysts or rating agencies. The Committee may discharge this responsibility by discussing the general types of information to be disclosed by the Fund and the form of presentation (i.e., a case-by-case review is not required) and need not discuss in advance each such release of information.

13. Establish procedures for (i) the receipt, retention, and treatment of complaints received by the Fund regarding accounting, internal accounting controls, or auditing matters; and (ii) the confidential, anonymous submission by employees of the Fund, the Fund s investment advisers, administrator, principal underwriter (if any) or any other provider of accounting-related services for the investment advisers of concerns regarding accounting or auditing matters.

14. Investigate or initiate the investigation of any improprieties or suspected improprieties in the Fund s accounting operations or financial reporting.

15. Review with counsel legal and regulatory matters that have a material impact on the Fund s financial and accounting reporting policies and practices or its internal controls.

16. Report to the Board on a regular basis (at least annually) on the Committee s activities.

17. Perform such other functions consistent with this Charter, the Agreement and Declaration of Trust, Articles of Incorporation and/or Bylaws applicable to the Fund, and applicable law or regulation, as the Committee or the Board deems necessary or appropriate.

The Committee may delegate any portion of its authority and responsibilities as set forth in this Charter to a subcommittee of one or more members of the Committee.

Meetings

At least annually, the Committee shall meet separately with the independent auditors and separately with the representatives of Fund management responsible for the financial and accounting operations of the Fund. The Committee shall hold other regular or special meetings as and when it deems necessary or appropriate.

Outside Resources and Assistance from Management

The appropriate officers of the Fund shall provide or arrange to provide such information, data and services as the Committee may request. The Committee shall have the authority to engage at the Fund s expense independent counsel and other experts and consultants whose expertise the Committee considers necessary to carry out its responsibilities. The Fund shall provide for, or arrange for the provision of, appropriate funding, as determined by the Committee, for the payment of: (i) compensation of the Fund s independent auditors for the issuance of an audit report relating to the Fund s financial statements or the performance of other audit, review or attest services for the Fund; (ii) compensation of independent legal counsel or other advisers retained by the Committee; and (iii) ordinary administrative expenses of the Committee that are necessary or appropriate in fulfilling its purposes or carrying out its responsibilities under this Charter.

Annual Evaluations

The Committee shall review and reassess the adequacy of this Charter at least annually and recommend any changes to the Board. In addition, the performance of the Committee shall be reviewed at least annually.

Adoption and Amendments

The Board shall adopt and approve this Charter and may amend the Charter at any time on the Board s own motion.

Appendix A

Funds Subject to this Charter

(As of September 5, 2014)

PCM FUND, INC. (PCM)

PIMCO MUNICIPAL INCOME (PMF)

PIMCO MUNICIPAL INCOME II (PML)

PIMCO MUNICIPAL INCOME III (PMX)

PIMCO CALIFORNIA MUNICIPAL INCOME (PCQ)

PIMCO CALIFORNIA MUNICIPAL INCOME II (PCK)

PIMCO CALIFORNIA MUNICIPAL INCOME III (PZC)

PIMCO NEW YORK MUNICIPAL INCOME (PNF)

PIMCO NEW YORK MUNICIPAL INCOME II (PNI)

PIMCO NEW YORK MUNICIPAL INCOME III (PYN)

PIMCO CORPORATE AND INCOME STRATEGY (PCN)

PIMCO CORPORATE AND INCOME OPPORTUNITY (PTY)

PIMCO HIGH INCOME (PHK)

PIMCO INCOME STRATEGY (PFL)

PIMCO INCOME STRATEGY II (PFN)

PIMCO INCOME OPPORTUNITY (PKO)

PIMCO GLOBAL STOCKSPLUS & INCOME (PGP)

PIMCO STRATEGIC INCOME FUND, INC. (RCS)

PIMCO DYNAMIC INCOME (PDI)

PIMCO DYNAMIC CREDIT AND MORTGAGE INCOME FUND (PCI)

Exhibit B to Proxy Statement

Nominating Committee Charter

PIMCO Managed Accounts Trust and

PIMCO Sponsored Closed-End Funds

PIMCO Sponsored Interval Funds

The Boards of Directors/Trustees (the Boards) of each Trust and respective series thereof (each Trust or series, a Fund) have adopted this Charter to govern the activities of the Nominating Committee (the Committee) of each Board.

Statement of Purpose and Responsibility

The primary purpose and responsibility of each Committee is the screening and nomination of candidates for election to the Board as independent Directors/Trustees.

Organization and Governance

Each Committee shall be comprised of as many Directors/Trustees as the Board shall determine, but in any event not fewer than two (2) Directors/Trustees. Each Committee must consist entirely of Board members who are not interested persons of the relevant Funds, as defined in Section 2(a)(19) of the Investment Company Act of 1940, as amended. Each Board may remove or replace any member of the Committee at any time in its sole discretion.

One or more members of a Committee may be designated by the Board as the Committee s chairman or co-chairman, as the case may be.

A Committee will not have regularly scheduled meetings. Committee meetings shall be held as and when the Committee or the Board determines necessary or appropriate in accordance with the Fund s Bylaws.

Qualifications for Director/Trustee Nominees

A Director/Trustee candidate must have a college degree or equivalent business experience. The Committee may take into account a wide variety of factors in considering Director/Trustee candidates, including (but not limited to): (i) availability and commitment of a candidate to attend meetings and perform his or her responsibilities on the Board, (ii) relevant industry and related experience, (iii) educational background, (iv) ability, judgment and expertise and (v) overall diversity of the Board s composition.

Identification of Nominees

In identifying potential nominees for a Board, the Committee may consider candidates recommended by the following sources: (i) the Fund s current Directors/Trustees; (ii) the Fund s officers; (iii) the Fund s investment adviser or sub-advisers; (iv) shareholders of the Fund (see below); and (v) any other source the Committee deems to be appropriate. The Committee may, but is not required to, retain a third party search firm at the Fund s expense to identify potential candidates.

Consideration of Candidates Recommended By Shareholders

A Committee will consider and evaluate nominee candidates properly submitted by shareholders on the same basis as it considers and evaluates candidates recommended by other sources. Appendix A (for PIMCO Managed Accounts Trust and PIMCO Sponsored Interval Funds) and Appendix B (for the PIMCO Sponsored Closed-End Funds) to this Charter, as they may be amended from time to time by a Committee, set forth procedures that must be followed by shareholders to submit properly a nominee candidate to the Committee (recommendations not properly submitted in accordance with Appendix A or Appendix B (as applicable) will not be considered by the Committee).

Recommendation of Candidates to the Board

A Committee will recommend to the Board the Directors/Trustees candidates that it deems qualified to serve as independent directors/trustees on the Board. To the extent practicable, the Committee will rank such potential nominees for the Board in order of preference.

Appendix A

Procedures for Shareholders to Submit Nominee Candidates for PIMCO Managed Accounts Trust and PIMCO Sponsored Interval Funds

A shareholder of a Fund must follow the following procedures in order to submit properly a nominee recommendation for the Committee s consideration.

1. The shareholder must submit any such recommendation (a Shareholder Recommendation) in writing to a Fund, to the attention of the Secretary, at the address of the principal executive offices of the Fund. Once each quarter, if any Shareholder Recommendations have been received by the Secretary during the quarter, the Secretary will inform the Committee of the new Shareholder Recommendations. Because the Fund does not hold annual or other regular meetings of shareholders for the purpose of electing Trustees, the Committee will accept Shareholder Recommendations on a continuous basis.

2. All Shareholder Recommendations properly submitted to a Fund will be held by the Secretary until such time as (i) the Committee convenes to consider candidates to fill Board vacancies or newly created Board positions (a Trustee Consideration Meeting) or (ii) the Committee instructs the Secretary to discard a Shareholder Recommendation following a Trustee Consideration Meeting or an Interim Evaluation (as defined below).

3. At a Trustee Consideration Meeting, the Committee will consider each Shareholder Recommendation then held by the Secretary. Following a Trustee Consideration Meeting, the Committee may instruct the Secretary to discard any or all of the Shareholder Recommendations currently held by the Secretary.

4. A Committee may, in its discretion and at any time, convene to conduct an evaluation of validly submitted Shareholder Recommendations (each such meeting, an Interim Evaluation) for the purpose of determining which Shareholder Recommendations will be considered at the next Trustee Consideration Meeting. Following an Interim Evaluation, the Committee may instruct the Secretary to discard any or all of the Shareholder Recommendations currently held by the Secretary.

5. The Shareholder Recommendation must include: (i) a statement in writing setting forth (A) the name, date of birth, business address, residence address and nationality of the person recommended by the shareholder (the candidate); (B) the number of shares of (and class, if any) of the Fund(s) owned of record or beneficially by the candidate, as reported to such shareholder by the candidate; (C) any other information regarding the

candidate called for with respect to director nominees by paragraphs (a), (d), (e) and (f) of Item 401 of Regulation S-K or paragraph (b) of Item 22 of Rule 14a-101 (Schedule 14A) under the Securities Exchange Act of 1934, as amended (the Exchange Act), adopted by the Securities and Exchange Commission (or the corresponding provisions of any regulation or rule subsequently adopted by the Securities and Exchange Commission or any successor agency applicable to the Trust); (D) any other information regarding the candidate that would be required to be disclosed if the candidate were a nominee in a proxy statement or other filing required to be made in connection with the election of Trustees or directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder; and (E) whether the recommending shareholder believes that the candidate is or will be an interested person of the Fund (as defined in the Investment Company Act of 1940, as amended) and, if not an interested person, information regarding the candidate that will be sufficient for the Fund to make such determination; (ii) the written and signed consent of the candidate to be named as a nominee and to serve as a Trustee if elected; (iii) the recommending shareholder s name as it appears on the Fund s books; (iv) the number of shares of (and class, if any) of the Fund(s) owned beneficially and of record by the recommending shareholder; and (v) a description of all arrangements or understandings between the recommending shareholder and the candidate and any other person or persons (including their names) pursuant to which the recommendation is being made by the recommending shareholder. In addition, the Committee may require the candidate to furnish such other information as it may reasonably require or deem necessary to determine the eligibility of such candidate to serve on the Board or to satisfy applicable law.

Appendix B

Procedures for Shareholders to Submit Nominee Candidates for

the PIMCO Sponsored Closed-End Funds

A Fund shareholder must follow the following procedures in order to properly submit a nominee recommendation for the Committee s consideration.

1. The shareholder/stockholder must submit any such recommendation (a Shareholder Recommendation) in writing to a Fund, to the attention of the Secretary, at the address of the principal executive offices of the Fund.

2. The Shareholder Recommendation must be delivered to or mailed and received at the principal executive offices of a Fund not less than forty-five (45) calendar days nor more than seventy-five (75) calendar days prior to the date of the Board or shareholder meeting at which the nominee would be elected.

3. The Shareholder Recommendation must include: (i) a statement in writing setting forth (A) the name, age, date of birth, business address, residence address and nationality of the person recommended by the shareholder (the candidate); (B) the class and number of all shares of the Fund owned of record or beneficially by the candidate, as reported to such shareholder by the candidate; (C) any other information regarding the candidate called for with respect to director nominees by paragraphs (a), (d), (e) and (f) of Item 401 of Regulation S-K or paragraph (b) of Item 22 of Rule 14a-101 (Schedule 14A) under the Securities Exchange Act of 1934, as amended (the Exchange Act), adopted by the Securities and Exchange Commission (or the corresponding provisions of any regulation or rule subsequently adopted by the Securities and Exchange Commission or any successor agency applicable to the Fund); (D) any other information regarding the candidate that would be required to be disclosed if the candidate were a nominee in a proxy statement or other filing required to be made in connection with solicitation of proxies for election of Directors/Trustees or directors pursuant to Section 14 of the Exchange Act and the rules and regulations promulgated thereunder; and (E) whether the recommending shareholder believes that the candidate is or will be an interested person of the Fund (as defined in the Investment Company Act of 1940, as amended) and, if not an interested person, information regarding the candidate that will be sufficient for the Fund to make such determination; (ii) the written and signed consent of the candidate to be named as a nominee and to serve as a Director/Trustee if elected; (iii) the recommending shareholder s name as it appears on the Fund s books; (iv) the class and number of all shares of the Fund owned beneficially and

of record by the recommending shareholder; and (v) a description of all arrangements or understandings between the recommending shareholder and the candidate and any other person or persons (including their names) pursuant to which the recommendation is being made by the recommending shareholder. In addition, the Committee may require the candidate to furnish such other information as it may reasonably require or deem necessary to determine the eligibility of such candidate to serve on the Board.

Exhibit C to Proxy Statement

Report of Audit Oversight Committees

of the Boards of Trustees of

PIMCO California Municipal Income Fund (PCQ)

PIMCO Municipal Income Fund (PMF)

PIMCO New York Municipal Income Fund (PNF)

PIMCO California Municipal Income Fund II (PCK)

PIMCO Municipal Income Fund II (PML)

PIMCO New York Municipal Income Fund II (PNI)

PIMCO California Municipal Income Fund III (PZC)

PIMCO Municipal Income Fund III (PMX)

(each, a Fund and, collectively, the Funds)

Dated February 26, 2018

The Audit Oversight Committees (the Committee) oversee the Funds financial reporting process on behalf of the Board of Trustees of each Fund (the Board) and operate under a written Charter adopted by the Board. The Committee meets with each Fund s management (Management) and independent registered public accounting firm and reports the results of its activities to the Board. Management has the primary responsibility for the financial statements and the reporting process, including the system of internal controls. In connection with the Committee s and independent accountant s responsibilities, Management has advised that the Funds financial statements for the fiscal year ended December 31, 2017 were prepared in conformity with the generally accepted accounting principles.

The Committee has reviewed and discussed with Management and PricewaterhouseCoopers LLP (PwC), the Funds independent registered public accounting firm, the audited financial statements for the fiscal year ended December 31, 2017. The Committee has discussed with PwC the matters required to be discussed by Statements on Auditing Standard No. 61 (SAS 61). SAS 61 requires the independent registered public accounting firm to communicate to the Committee matters including, if applicable: 1) methods used to account for significant unusual transactions; 2) the effect of significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus; 3) the process used by management in formulating particularly sensitive accounting estimates and the basis for the auditor s conclusions regarding the reasonableness of those estimates; and 4) disagreements with Management over the application of accounting principles and certain other matters.

With respect to each Fund, the Committee has received the written disclosure and the letter from PwC required by Rule 3526 of the Public Company Accounting Oversight Board (requiring registered public accounting firms to make written disclosure to and discuss with the Committee various matters relating to the auditor s independence), and has discussed with PwC their independence. The Committee has also reviewed the aggregate fees billed by PwC for professional services rendered to each Fund and, to the extent applicable with respect to each Fund s reporting period, for non-audit services provided to Pacific Investment Management Company LLC (PIMCO), the Funds investment manager, and any entity controlling, controlled by or under common control with PIMCO that provided services to each Fund during its reporting period. As part of this review, the Committee considered, in addition to other practices and requirements relating to selection of the Funds independent registered public accounting firm, whether the provision of such non-audit services was compatible with maintaining the independence of PwC.

Based on the foregoing review and discussions, the Committee presents this Report to the Board and recommends that (1) the audited financial statements for the fiscal year ended December 31, 2017 be included in the Funds Annual Report to shareholders for such fiscal year, (2) such Annual Report be filed with the Securities and Exchange Commission and the New York Stock Exchange, and (3) PwC be reappointed as the Funds independent registered public accounting firm for the fiscal year ending December 31, 2018.

Submitted by the Audit Oversight Committee of the Board of Trustees:

Deborah A. DeCotis,

Bradford K. Gallagher,

James A. Jacobson,

Hans W. Kertess,

William B. Ogden, IV and

Alan Rappaport

CEF_PROXY_101918

FORM OF PROXY CARD (PMF, PCQ, PNF, PML, PCK, PNI, PMX, PZC)

[FUND NAME] PREFERRED SHARES

YOUR VOTE IS IMPORTANT NO MATTER HOW MANY SHARES YOU OWN. THE MATTERS WE ARE SUBMITTING FOR YOUR CONSIDERATION ARE SIGNIFICANT TO THE FUND AND TO YOU AS A FUND SHAREHOLDER. **PLEASE TAKE THE TIME TO READ THE PROXY STATEMENT AND CAST YOUR PROXY VOTE TODAY!**

PROXY IN CONNECTION WITH THE ANNUAL MEETING OF SHAREHOLDERS

TO BE HELD ON DECEMBER 19, 2018

The undersigned holder of preferred shares of [FUND], a Massachusetts business trust (the Fund), hereby appoints [Peter G. Strelow, Eric D. Johnson and Joshua D. Ratner], or any of them, each with full power of substitution, as the proxy or proxies for the undersigned to: (i) attend the Annual Meeting of Shareholders of the Fund (the Annual Meeting) to be held at the offices of Pacific Investment Management Company LLC, at 1633 Broadway, between West 50th and West 51st Streets, 42nd Floor, New York, New York 10019, on December 19, 2018 beginning at [10:30 A.M.] Eastern Time, and any adjournment(s) or postponement(s) thereof; and (ii) cast on behalf of the undersigned all votes that the undersigned is entitled to cast at the Annual Meeting and otherwise to represent the undersigned with all powers possessed by the undersigned as if personally present at such Annual Meeting. The undersigned acknowledges receipt of the Notice of the Annual Meeting and the accompanying Proxy Statement dated [ ], 2018. The undersigned hereby revokes any prior proxy given with respect to the Annual Meeting, and ratifies and confirms all that the proxies, or any one of them, may lawfully do.

THIS PROXY IS SOLICITED ON BEHALF OF THE BOARD OF TRUSTEES OF THE FUND, WHICH UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE PROPOSAL.

IF THIS PROXY IS PROPERLY EXECUTED, THE VOTES ENTITLED TO BE CAST BY THE UNDERSIGNED WILL BE CAST IN THE MANNER DIRECTED ON THE REVERSE SIDE HEREOF, AND WILL BE VOTED IN THE DISCRETION OF THE PROXY HOLDER(S) ON ANY OTHER MATTERS THAT MAY PROPERLY COME BEFORE THE ANNUAL MEETING OR ANY ADJOURNMENT(S) OR POSTPONEMENT(S) THEREOF. IF THIS PROXY IS PROPERLY EXECUTED

BUT NO DIRECTION IS MADE AS REGARDS TO A PROPOSAL INCLUDED IN THE PROXY STATEMENT, SUCH VOTES ENTITLED TO BE CAST BY THE UNDERSIGNED WILL BE CAST FOR SUCH PROPOSAL.

Please refer to the Proxy Statement for a discussion of the Proposal.

PLEASE VOTE, DATE AND SIGN ON THE REVERSE SIDE HEREOF AND RETURN THE SIGNED PROXY PROMPTLY IN THE ENCLOSED ENVELOPE. IMPORTANT NOTICE REGARDING THE AVAILABILITY OF PROXY MATERIALS FOR THE ANNUAL MEETING OF SHAREHOLDERS TO BE HELD ON DECEMBER 19, 2018. The Proxy Statement and the Annual Report to Shareholders for the fiscal year ended December 31, 2017 for [FUND] are also available at pimco.com/closedendfunds.

[PROXY ID NUMBER HERE]	[BAR CODE HERE]	[CUSIP HERE]

FORM OF PROXY CARD (PMF, PCQ, PNF, PML, PCK, PNI, PMX, PZC)

[FUND NAME] PREFERRED SHARES

YOUR SIGNATURE IS REQUIRED FOR YOUR VOTE TO BE COUNTED.

Please sign exactly as your name(s) appear(s) on the proxy card. Joint owners should each sign personally. Trustees and other fiduciaries should indicate the capacity in which they sign, and where more than one name appears, a majority must sign. If a corporation, the signature should be that of an authorized officer who should state his or her title.

SIGNATURE (AND TITLE IF APPLICABLE) DATE

SIGNATURE (IF HELD JOINTLY) DATE

TO VOTE, MARK ONE CIRCLE IN BLUE OR BLACK INK. Example:

PROPOSAL	FOR	WITHHOLD
A. Election of Trustees The Board of Trustees urges you to vote FOR the election of the Nominees.		
1. Nominees:		
(01) Hans W. Kertess	O	O
(02) John C. Maney	O	O
(03) Alan Rappaport	O	O

2. To vote and otherwise represent the undersigned on any other business that may properly come before the Annual Meeting or any adjournment(s) or postponement(s) thereof, in the discretion of the proxy holder(s).

B. Non-Voting Items

Change of Address **Please print new address below.**

Comments **Please print your comments below.**

You can vote on the internet, by telephone or by mail. Please see the reverse side for instructions.

PLEASE VOTE ALL YOUR BALLOTS IF YOU RECEIVED MORE THAN ONE BALLOT DUE TO MULTIPLE INVESTMENTS IN THE FUND. REMEMBER TO SIGN AND DATE ABOVE BEFORE MAILING IN YOUR VOTE. THIS PROXY CARD IS VALID ONLY WHEN SIGNED AND DATED.

THANK YOU FOR VOTING

[PROXY ID NUMBER HERE] [BAR CODE HERE] [CUSIP HERE]

FORM OF PROXY CARD (PMF, PCQ, PNF, PML, PCK, PNI)

YOUR VOTE IS IMPORTANT NO MATTER HOW MANY SHARES YOU OWN. THE MATTERS WE ARE SUBMITTING FOR YOUR CONSIDERATION ARE SIGNIFICANT TO THE FUND AND TO YOU AS A FUND SHAREHOLDER. **PLEASE TAKE THE TIME TO READ THE PROXY STATEMENT AND CAST YOUR PROXY VOTE TODAY!**

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	(as initially reported) Nov 5, 2014	Measurement Period Adjustments	(as adjusted) Nov 5, 2014
Cash	$12,764	$—	$12,764
Current deferred tax asset	657	114	771
Current assets	12,237	—	12,237
Property, plant and equipment	3,376	—	3,376
Goodwill	89,501	(8,000)	81,501
Other intangibles	57,500	17,700	75,200
Current liabilities	(6,032)	(1,973)	(8,005)
Long-term deferred tax liability	(13,095)	(4,657)	(17,752)
Other non-current liabilities	(2,111)	(3,459)	(5,570)
Net assets acquired and liabilities assumed	$154,797	$(275)	$154,522

The current deferred tax assets and long term deferred tax liabilities amounted to $0.8 million and $17.8 million, respectively. These net assets are comprised of $5.7 million related to federal and state net operating loss carry forwards, $1.5 million of assets arising from the difference between the book and tax basis of tangible asset and liability accounts, net of $24.2 million of deferred tax liabilities related to the difference between the book and tax basis of identifiable intangible assets. Federal and state net operating loss carry forwards are subject to carry forward limitations for income tax purposes.

The goodwill and $52.7 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles includes $20.7 million allocated to customer relationships and $1.8 million allocated to backlog, which are being amortized over a period of 6 years and 5 months, respectively. Goodwill and other intangibles of U-Line are allocated to the Residential Kitchen Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

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Desmon

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

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

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

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

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

The Desmon purchase agreement includes an earnout provision providing for a contingent payment due to the sellers to the extent certain financial targets are exceeded. This earnout is payable within the second quarter of each of the fiscal years 2016, 2017 and 2018, respectively, if Desmon exceeds certain sales targets for fiscal 2015, 2016 and 2017, respectively. The contractual obligation associated with the contingent earnout provision recognized on the acquisition date is $2.1 million.

Goldstein Eswood

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

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

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

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

The Goldstein Eswood purchase agreement includes an earnout provision providing for a contingent payment due to the sellers to the extent certain financial targets are exceeded. This earnout is payable within the second quarter of each of the fiscal years 2016 and 2017, respectively, if Goldstein Eswood exceeds certain sales targets for fiscal 2015 and 2016, respectively. The contractual obligation associated with the contingent earnout provision recognized on the acquisition date is $1.8 million.

Marsal

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

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

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

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

Thurne

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

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

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

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

Induc

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

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

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

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

The Induc purchase agreement includes an earnout provision providing for a contingent payment due to the sellers to the extent certain financial targets are exceeded. This earnout is payable within the first quarter of each of the fiscal years 2018, 2019 and 2020, respectively, if Induc exceeds certain sales and earnings targets for fiscal 2017, 2018 and 2019, respectively. The contractual obligation associated with the contingent earnout provision recognized on the acquisition date is $3.7 million.

AGA

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

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

	(as initially reported) Sep 23, 2015	Preliminary Measurement Period Adjustments	(as adjusted) Sep 23, 2015
Cash	$15,316	$ 984	$16,300
Current assets	163,216	(9,105)	154,111
Property, plant and equipment	61,423	(210)	61,213
Goodwill	144,645	(21,957)	122,688
Other intangibles	190,000	30,000	220,000
Deferred tax asset	5,306	(5,306)	—
Other assets	1,573	289	1,862
Current portion long-term debt	(30,703)	—	(30,703)
Current liabilities	(147,279)	(7,237)	(154,516)
Long term debt	(138)	—	(138)
Long-term deferred tax liability	—	(143)	(143)
Other non-current liabilities	(202,312)	12,685	(189,627)
Net assets acquired and liabilities assumed	$201,047	$ —	$201,047

The long-term deferred tax asset amounted to $0.1 million. These net assets are comprised of $33.6 million of assets related to pension liabilities, $0.9 million of assets related to foreign net operating loss, $1.7 million of assets related to federal net operating loss carry forwards and $5.2 million of assets related to the difference between the book and tax basis of tangible assets and liability accounts, net of $41.5 million of deferred tax liabilities related to the difference between the book and tax basis of identifiable intangible assets. Net operating loss carryforwards are subject to carryforward limitations.

The goodwill and $145.0 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also includes $75.0 million allocated to customer relationships, which is to be amortized over a period of 8 years. Goodwill and other intangibles of AGA are allocated to the Residential Kitchen Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

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

The company believes that information gathered to date provides a reasonable basis for estimating the fair values of assets acquired and liabilities assumed but the company is waiting for additional information necessary to finalize those fair values. Thus, the provisional measurements of fair value set forth above are subject to change. The company

expects to complete the purchase price allocation as soon as practicable but no later than one year from the acquisition date.

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Lynx

On December 15, 2015, the company completed its acquisition of all of the capital stock of Lynx Grills, Inc. ("Lynx"), a leading manufacturer of premium residential outdoor equipment located in Downey, California, for a purchase price of approximately $83.8 million, net of cash acquired. The purchase price is subject to adjustment based upon a working capital provision provided by the purchase agreement. The company expects to finalize this in the third quarter of 2016.

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

	(as initially reported) Dec 15, 2015	Preliminary Measurement Period Adjustments	(as adjusted) Dec 15, 2015
Cash	$276	$ —	$276
Current deferred tax asset	467	—	467
Current assets	18,630	(296)	18,334
Property, plant and equipment	1,690	—	1,690
Goodwill	42,502	1,526	44,028
Other intangibles	39,800	—	39,800
Other assets	130	—	130
Current liabilities	(6,208)	—	(6,208)
Long term deferred tax liability	(12,589)	—	(12,589)
Other non-current liabilities	(666)	(1,230)	(1,896)
Net assets acquired and liabilities assumed	$84,032	$ —	$84,032

The current deferred tax assets and long term deferred tax liabilities amounted to $0.5 million and $12.6 million, respectively. These net liabilities are comprised of $14.0 million of deferred tax liabilities related to the difference between book and tax basis of identifiable intangible assets, net of $1.6 million related to federal and state net operating loss carryforwards and $0.3 million of assets arising from the difference between the book and tax basis of tangible assets and liability accounts. Federal and state net operating loss carryforwards are subject to carryforward limitations.

The goodwill and $30.0 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also includes $9.0 million allocated to customer relationships and $0.8 million allocated to backlog, which is to be amortized over a period of 5 years and 3 months respectively. Goodwill and other intangibles of Lynx are allocated to the Residential Kitchen Equipment Group for segment reporting purposes. These assets are not expected to be deductible for tax purposes.

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

Emico

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

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

	(as initially reported) May 20, 2016
Current assets	$ 746
Goodwill	1,816
Current liabilities	(934)
Other non-current liabilities	(628)
Consideration paid at closing	$ 1,000
Deferred payments	1,559
Net assets acquired and liabilities assumed	$ 2,559

The goodwill is subject to the non-amortization provisions of ASC 350 and is expected to be deductible for tax purposes.

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

Follett

On May 31, 2016, the company completed its acquisition of substantially all of the assets of of Follett Corporation ("Follett"), a leading manufacturer of ice machines, ice and water dispensing equipment, ice storage and transport products and medical grade refrigeration products for the foodservice and healthcare industries headquartered in Easton, Pennsylvania, for a purchase price of approximately $209.1 million, net of cash acquired. The purchase price is subject to adjustment based upon a working capital provision provided by the purchase agreement. The company expects to finalize this in the fourth quarter of 2016.

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

	(as initially reported) May 31, 2016
Cash	$22,620
Current assets	41,602
Property, plant and equipment	19,868
Goodwill	76,220
Other intangibles	82,450
Other assets	1,358
Current liabilities	(11,779)
Other non-current liabilities	(616)
Net assets acquired and liabilities assumed	$231,723

The goodwill and $55.0 million of other intangibles associated with the trade name are subject to the non-amortization provisions of ASC 350. Other intangibles also includes $22.5 million allocated to customer relationships, $4.5 million allocated to developed technology and $0.5 million allocated to backlog, which are to be amortized over periods of 6 years, 6 years, and 3 months, respectively. These assets are expected to be deductible for tax purposes.

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

Pro Forma Financial Information

In accordance with ASC 805 “Business Combinations”, the following unaudited pro forma results of operations for the six months ended July 2, 2016 and July 4, 2015, assumes the 2015 acquisitions of Desmon, Goldstein Eswood, Marsal, Thurne, Induc, AGA and Lynx and the 2016 acquisition of Follett were completed on January 4, 2015 (first day of fiscal year 2015). The following pro forma results include adjustments to reflect additional interest expense to fund the acquisitions, amortization of intangibles associated with the acquisitions, and the effects of adjustments made to the carrying value of certain assets (in thousands, except per share data):

	Six Months Ended	
	July 2, 2016	July 4, 2015
Net sales	$1,164,311	$1,142,066
Net earnings	132,088	89,456
Net earnings per share:		
Basic	2.32	1.57
Diluted	2.32	1.57

The supplemental pro forma financial information presented above has been prepared for comparative purposes and is not necessarily indicative of either the results of operations that would have occurred had the acquisitions of these companies been effective on January 4, 2015 nor are they indicative of any future results. Also, the pro forma financial information does not reflect the costs which the company has incurred or may incur to integrate Desmon, Goldstein Eswood, Marsal, Thurne, Induc, AGA, Lynx and Follett.

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

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

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In June 2014, the FASB issued ASU No. 2014-12, “Compensation - Stock Compensation”. This update requires that a performance target that affects vesting and that could be achieved after the requisite service period be treated as a performance condition. As such, the performance target should not be reflected in estimating the grant date fair value of the award. This update is effective for annual and corresponding interim reporting periods beginning on or after December 15, 2015. Early adoption is permitted. The adoption of this guidance did not have an impact on the company's financial position, results of operations or cash flows.
In January 2015, the FASB issued ASU No. 2015-01, "Income Statement - Extraordinary and Unusual Items". This update eliminates the concept of extraordinary items from the current guidance. This update is effective for annual and corresponding interim reporting periods beginning after December 15, 2015. Retrospective application is encouraged for all prior periods presented in the financial statements. The adoption of this guidance did not have an impact on the company's financial position, results of operations or cash flows.
In April 2015, the FASB issued ASU 2015-03, "Interest - Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs", which requires debt issuance costs to be recorded as a direct reduction of the debt liability on the balance sheet rather than as an asset. The standard is effective for fiscal years beginning after December 15, 2015. The new guidance will be applied retrospectively to each prior period presented. The adoption of this guidance did not have an impact on the company's financial position, results of operations or cash flows.
In April 2015, the FASB issued ASU 2015-04, "Practical Expedient for the Measurement Date of an Employer's Defined Benefit Obligation and Plan Assets". This ASU is intended to provide a practical expedient for the measurement date of defined benefit plan assets and obligations. The practical expedient allows employers with fiscal year-end dates that do not fall on a calendar month-end (e.g., companies with a 52/53-week fiscal year) to measure pension and post-retirement benefit plan assets and obligations as of the calendar month-end date closest to the fiscal year-end. The FASB also provided a similar practical expedient for interim remeasurements for significant events. This ASU requires perspective application and is effective for annual reporting periods beginning after December 15, 2015 and interim periods within those fiscal years. Early adoption is permitted. The adoption of this guidance did not have an impact on the company's financial position, results of operations or cash flows.
In August 2015, the FASB issued ASU 2015-15, “Interest - Imputation of Interest” which relates to the presentation of debt issuance costs. This standard clarifies the guidance set forth in FASB ASU 2015-03, which required that debt issuance costs related to a recognized debt liability be presented on the balance sheet as a direct deduction from the debt liability rather than as an asset. The new pronouncement clarifies that debt issuance costs related to line-of-credit arrangements could continue to be presented as an asset and be subsequently amortized over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the arrangement. The adoption of this guidance did not have a material impact on its consolidated balance sheets.
In July 2015, the FASB issued ASU 2015-11, “Simplifying the Measurement of Inventory,” which is intended to simplify the subsequent measurement of inventories by replacing the current lower of cost or market test with a lower of cost and net realizable value test. The guidance applies only to inventories for which cost is determined by methods other than last-in first-out and the retail inventory method. Application of the standard, which should be applied prospectively, is required for the annual and interim periods beginning after December 15, 2016. Early adoption is permitted. The company is evaluating the impact the application of this ASU will have, if any, on the company's financial position, results of operations or cash flows.

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

In November 2015, the FASB issued ASU 2015-17 "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes". The amendments in ASU 2015-17 simplify the accounting for, and presentation of, deferred taxes by eliminating the need to separately classify the current amount of deferred tax assets or liabilities. Instead, aggregated deferred tax assets and liabilities are classified and reported as non-current assets or liabilities. The update is effective for annual reporting periods, and interim periods within those reporting periods, beginning after December 15, 2016. Early adoption is permitted for financial statements that have not been issued. The company early adopted ASU 2015-17 effective April 3, 2016 on a prospective basis. Adoption of this ASU resulted in a reclassification of the company's net current deferred tax asset to the net non-current deferred tax liability in the company's Consolidated Balance Sheet as of July 2, 2016. No prior periods were retrospectively adjusted.

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

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

In March 2016, the FASB issues ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718)". The amendments in ASU-09 simplify the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for annual reporting periods, and interim periods with those reporting periods, beginning after December 15, 2016. The company is evaluating the impact the application of this ASU will have, if any, on the company's financial position, results of operations or cash flows.

5) 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, 2016	$ (52,842)	$ (23,579)	$ 9	$ (76,412)
Other comprehensive income before reclassification	(19,975)	4,856	76	(15,043)
Amounts reclassified from accumulated other comprehensive income	—	—	(199)	(199)
Net current-period other comprehensive income	$ (19,975)	$ 4,856	$ (123)	$ (15,242)
Balance as of July 2, 2016	$ (72,817)	$ (18,723)	$ (114)	$ (91,654)

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

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

	Three Months Ended		Six Months Ended	
	Jul 2, 2016	Jul 4, 2015	Jul 2, 2016	Jul 4, 2015
Net earnings	$ 72,891	$ 54,267	$ 127,429	$ 92,498
Currency translation adjustment	(19,579)	6,669	(19,975)	(9,122)
Pension liability adjustment, net of tax	1,078	(89)	4,856	25
Unrealized gain on interest rate swaps, net of tax	(2)	302	(123)	(170)
Comprehensive income	$ 54,388	$ 61,149	$ 112,187	$ 83,231

6) Inventories

Inventories are composed of material, labor and overhead and are stated at the lower of cost or market. Costs for inventories at two of the company's manufacturing facilities have been determined using the last-in, first-out ("LIFO") method. These inventories under the LIFO method amounted to $41.4 million at July 2, 2016 and $35.6 million at January 2, 2016 and represented approximately 10.6% and 10.1% of the total inventory at each respective period. The amount of LIFO reserve at July 2, 2016 and January 2, 2016 was not material. Costs for all other 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 2, 2016 and January 2, 2016 are as follows:

	Jul 2, 2016	Jan 2, 2016
	(in thousands)	
Raw materials and parts	$ 163,630	$ 139,117
Work-in-process	34,024	34,771
Finished goods	192,224	180,262
	$ 389,878	$ 354,150

7) Goodwill

Changes in the carrying amount of goodwill for the six months ended July 2, 2016 are as follows (in thousands):

	Commercial Foodservice	Food Processing	Residential Kitchen	Total
Balance as of January 2, 2016	$ 473,127	$ 134,092	$ 376,120	$ 983,339
Goodwill acquired during the year	76,220	1,816	—	78,036
Measurement period adjustments to goodwill acquired in prior year	(503)	—	(58)	(561)
Exchange effect	(3,339)	337	(5,858)	(8,860)
Balance as of July 2, 2016	$ 545,505	$ 136,245	$ 370,204	$ 1,051,954

8) Accrued Expenses

Accrued expenses consist of the following:

	Jul 2, 2016	Jan 2, 2016
	(in thousands)	
Accrued payroll and related expenses	$ 67,090	$ 65,623
Advanced customer deposits	60,663	57,595
Accrued warranty	37,048	37,901
Accrued customer rebates	33,351	45,154
Accrued agent commission	11,633	9,948
Accrued product liability and workers compensation	11,632	11,635
Accrued sales and other tax	10,048	13,537
Accrued professional fees	8,046	7,019
Product recall	6,718	7,786
Restructuring	3,319	6,266
Other accrued expenses	55,974	57,690
	$ 305,522	$ 320,154

9) 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:

	Six Months Ended Jul 2, 2016 (in thousands)
Balance as of January 2, 2016	$ 37,901
Warranty reserve related to acquisitions	—
Warranty expense	22,868
Warranty claims	(23,721)
Balance as of July 2, 2016	$ 37,048

10) Financing Arrangements

	Jul 2, 2016	Jan 2, 2016
	(in thousands)	
Senior secured revolving credit line	$861,500	$733,000
Foreign loans	54,596	32,813
Other debt arrangement	230	248
Total debt	$916,326	$766,061
Less: Current maturities of long-term debt	53,755	32,059
Long-term debt	$862,571	$734,002

On August 7, 2012, the company entered into a senior secured multi-currency credit facility. Terms of the company's senior credit agreement provide for a total of $1.25 billion of availability under a revolving credit line. As of July 2, 2016, the company had $861.5 million of borrowings outstanding under this facility. The company also had $6.3 million in outstanding letters of credit as of July 2, 2016, which reduces the borrowing availability under the revolving credit line. Remaining borrowing availability under this facility was $382.2 million at July 2, 2016.

At July 2, 2016, borrowings under the senior secured credit facility were assessed at an interest rate of 1.50% above LIBOR for long-term borrowings or at the higher of the Prime rate and the Federal Funds Rate. The average interest rate on the senior debt amounted to 2.07%. The interest rates on borrowings under the senior secured credit facility may be adjusted quarterly based on the company's indebtedness ratio on a rolling four-quarter basis. Additionally, a commitment fee based upon the indebtedness ratio is charged on the unused portion of the revolving credit line. This variable commitment fee amounted to 0.25% as of July 2, 2016.

In September 2015, the company completed its acquisition of Aga Rangemaster Group plc in the United Kingdom. At the time of acquisition, credit facilities denominated in British Pounds, Euro and U.S. dollars, had been established to fund local working capital needs. At July 2, 2016, these facilities amounted to $47.0 million in U.S. dollars. The average interest rate assessed on these facilities was approximately 2.46%.

In addition, the company has other international credit facilities to fund working capital needs outside the United States and the United Kingdom. At July 2, 2016, these foreign credit facilities amounted to $7.6 million in U.S. dollars with a weighted average interest rate of approximately 9.99%.

The company's debt is reflected on the balance sheet at cost. Based on current market conditions, 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. However, the interest rate margin is based upon numerous factors, including but not limited to the credit rating of the borrower, the duration of the loan, the structure and restrictions under the debt agreement, current lending policies of the counterparty, and the company's relationships with its lenders.

The company estimated the fair value of its loans by calculating the upfront cash payment a market participant would require to assume the company's obligations. The upfront cash payment is the amount that a market participant would be able to lend to achieve sufficient cash inflows to cover the cash outflows under the company's senior revolving credit facility assuming the facility was outstanding in its entirety until maturity. Since the company maintains its borrowings under a revolving credit facility and there is no predetermined borrowing or repayment schedule, for purposes of this calculation the company calculated the fair value of its obligations assuming the current amount of debt at the end of the period was outstanding until the maturity of the company's senior revolving credit facility in August 2017. Although borrowings could be materially greater or less than the current amount of borrowings outstanding at the end of the period, it is not practical to estimate the amounts that may be outstanding during future periods. The carrying value and estimated aggregate fair value, a level 2 measurement, based primarily on market prices, of debt is as follows (in thousands):

	Jul 2, 2016		Jan 2, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Total debt	$916,326	$916,326	$766,061	$766,061

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The company uses floating-to-fixed interest rate swap agreements to hedge variable interest rate risk associated with the revolving credit line. At July 2, 2016, the company had outstanding floating-to-fixed interest rate swaps totaling $90.0 million notional amount carrying an average interest rate of 0.82% maturing in less than 12 months and $85.0 million notional amount carrying an average interest rate of 0.98% that mature in more than 12 months but less than 24 months.

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

The terms of the senior secured credit facility limit the ability of the company and its subsidiaries to, with certain exceptions: incur indebtedness; grant liens; engage in certain mergers, consolidations, acquisitions and dispositions; make restricted payments; enter into certain transactions with affiliates; and require, among other things, a maximum ratio of indebtedness to EBITDA of 3.5 and a fixed charge coverage ratio (as defined in the senior secured credit facility) of 1.25. The senior secured 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 domestic subsidiaries. The senior secured 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. The credit agreement also provides that if a material adverse change in the company’s business operations or conditions occurs, the lender could declare an event of default. Under terms of the agreement, a material adverse effect is defined as (a) a material adverse change in, or a material adverse effect upon, the operations, business properties, condition (financial and otherwise) or prospects of the company and its subsidiaries taken as a whole; (b) a material impairment of the ability of the company to perform under the loan agreements and to avoid any event of default; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against the company of any loan document. A material adverse effect is determined on a subjective basis by the company's creditors. At July 2, 2016, the company was in compliance with all covenants pursuant to its borrowing agreements.

Subsequent to the end of the second quarter, the company entered into an amended senior secured multi-currency credit facility. See Note 15 of the Notes to the Condensed Consolidated Financial Statements for further information.

11) Financial Instruments

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

Foreign Exchange: The company uses foreign currency forward and option purchase and sales contracts with terms of less than one year to hedge its exposure to changes in foreign currency exchange rates. The company’s primary hedging activities are to mitigate its exposure to changes in exchange rates on intercompany and third party trade receivables and payables. The company does not currently enter into derivative financial instruments for speculative purposes. In managing its foreign currency exposures, the company identifies and aggregates naturally occurring offsetting positions and then hedges residual balance sheet exposures. The fair value of the forward and option contracts was a gain of $3.1 million at the end of the second quarter of 2016.

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 2, 2016, the fair value of these instruments was a liability of $0.6 million. The change in fair value

of these swap agreements in the first six months of 2016 was a loss of less than $0.1 million, net of taxes.

The following tables summarize the company's fair value of interest rate swaps (in thousands):

	Condensed Consolidated Balance Sheet Presentation	Jul 2, 2016	Jan 2, 2016
Fair value	Other non-current liabilities	$ (610)	$ (412)

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

	Presentation of Gain/(loss)	Three Months Ended		Six Months Ended	
		Jul 2, 2016	Jul 4, 2015	Jul 2, 2016	Jul 4, 2015
Gain/(loss) recognized in accumulated other comprehensive income	Other comprehensive income	$(211)	$(4)	$(730)	$(1,301)
Gain/(loss) reclassified from accumulated other comprehensive income (effective portion)	Interest expense	$(208)	$(489)	$(525)	$(974)
Gain/(loss) recognized in income (ineffective portion)	Other expense	$(4)	$2	$7	$15

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 and assesses its creditworthiness prior to entering into the interest rate swap agreements. 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.

12) 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 cooking equipment for the restaurant and institutional kitchen industry. This business segment has manufacturing facilities in California, Illinois, Michigan, New Hampshire, North Carolina, Pennsylvania, Tennessee, Texas, Vermont, Washington, Australia, China, Denmark, Italy, the Philippines, Poland and the United Kingdom. Principal product lines of this group include conveyor ovens, ranges, steamers, convection ovens, combi-ovens, broilers and steam cooking equipment, induction cooking systems, baking and proofing ovens, charbroilers, catering equipment, fryers, toasters, hot food servers, food warming equipment, griddles, coffee and beverage dispensing equipment, professional refrigerators, coldrooms, ice machines, freezers and kitchen processing and ventilation equipment. These products are sold and marketed under the brand names: Anets, Beech, Blodgett, Blodgett Combi, Blodgett Range, Bloomfield, Britannia, CTX, Carter-Hoffmann, Celfrost, Concordia, CookTek, Desmon, Doyon, Eswood, Follett, Frifri, Giga, Goldstein, Holman, Houno, IMC, Induc, Jade, Lang, Lincat, MagiKitch'n, Market Forge, Marsal, Middleby Marshall, MPC, Nieco, Nu-Vu, PerfectFry, Pitco, Southbend, Star, Toastmaster, TurboChef, Wells and Wunder-Bar.

The Food Processing Equipment Group manufactures preparation, cooking, packaging, food handling and food safety equipment for the food processing industry. This business segment has manufacturing operations in Georgia, Illinois, Iowa, North Carolina, Texas, Virginia, Wisconsin, France, Germany and the United Kingdom. Principal product lines of this group include batch ovens, belt ovens, continuous processing ovens, frying systems, automated thermal processing systems, automated loading and unloading systems, meat presses, breading, battering, mixing, water cutting systems, forming, grinding and slicing equipment, food suspension, reduction and emulsion systems, defrosting equipment, packaging and food safety equipment. These products are sold and marketed under the brand names: Alkar, Armor Inox, Auto-Bake, Baker Thermal Solutions, Cozzini, Danfotech, Drake, Maurer-Atmos, MP Equipment, RapidPak, Spooner Vicars, Stewart Systems and Thurne.

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

The 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 2, 2016		Jul 4, 2015		Jul 2, 2016		Jul 4, 2015	
	Sales	Percent	Sales	Percent	Sales	Percent	Sales	Percent
Business Segments:								
Commercial Foodservice	$321,028	55.3 %	$288,831	66.2 %	$600,014	54.7 %	$551,047	65.4 %
Food Processing	83,475	14.4	71,913	16.5	162,111	14.8	141,732	16.8
Residential Kitchen	175,953	30.3	75,547	17.3	334,686	30.5	150,108	17.8
Total	$580,456	100.0%	$436,291	100.0%	$1,096,811	100.0%	$842,887	100.0%

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

	Commercial Foodservice	Food Processing	Residential Kitchen	Corporate and Other(2)	Total
Three Months Ended July 2, 2016					
Net sales	$ 321,028	$ 83,475	$ 175,953	$ —	$ 580,456
Income (loss) from operations	93,732	19,186	22,364	(23,369)	111,913
Depreciation and amortization expense	5,575	1,520	8,238	977	16,310
Net capital expenditures	3,322	884	1,078	131	5,415
Six Months Ended July 2, 2016					
Net sales	$ 600,014	$ 162,111	$ 334,686	$ —	$ 1,096,811
Income (loss) from operations	170,301	37,049	32,215	(41,277)	198,288
Depreciation and amortization expense	9,946	2,958	16,942	1,394	31,240
Net capital expenditures	7,506	2,682	2,789	131	13,108
Total assets	$ 1,367,664	$ 321,694	$ 1,195,379	$ 46,933	$ 2,931,670
Three Months Ended July 4, 2015					
Net sales	$ 288,831	$ 71,913	$ 75,547	$ —	$ 436,291
Income (loss) from operations	77,616	14,176	9,101	(17,533)	83,360
Depreciation and amortization expense	5,027	3,545	2,260	96	10,928
Net capital expenditures	3,296	1,782	309	180	5,567
Six Months Ended July 4, 2015					
Net sales	$ 551,047	$ 141,732	$ 150,108	$ —	$ 842,887
Income (loss) from operations	141,342	27,486	14,042	(32,930)	149,940
Depreciation and amortization expense	10,293	4,982	6,389	496	22,160
Net capital expenditures	7,920	2,137	1,369	258	11,684
Total assets	$ 1,159,298	$ 314,282	$ 629,210	$ 53,158	$ 2,155,948

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

Geographic Information

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

	Jul 2, 2016	Jul 4, 2015
United States and Canada	$170,854	$106,208
Asia	15,582	20,835
Europe and Middle East	64,199	46,165
Latin America	1,151	1,401
Total international	$80,932	$68,401
	$251,786	$174,609

Net sales (in thousands):

	Three Months Ended		Six Months Ended	
	Jul 2, 2016	Jul 4, 2015	Jul 2, 2016	Jul 4, 2015
United States and Canada	$381,369	$327,539	$707,310	$624,023
Asia	43,796	36,383	81,590	84,912
Europe and Middle East	134,484	57,140	271,088	100,124
Latin America	20,807	15,229	36,823	33,828
Total international	$199,087	$108,752	$389,501	$218,864
	$580,456	$436,291	$1,096,811	$842,887

13) Employee Retirement Plans

(a) Pension Plans

U.S. Plans:

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

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

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

Non-U.S. Plans:

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

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

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

During the six months period ended July 2, 2016, the company recorded net periodic pension cost related to the AGA Group pension plans of $12.1 million which includes; an expected return on plan assets of $35.2 million, interest cost of $21.3 million and a service cost of $1.8 million. The pension costs for all other plans of the company were not material during the six months period ended July 2, 2016 and six months period ended July 4, 2015, respectively.

(b) Defined Contribution Plans

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

14) Restructuring

Residential Kitchen Equipment Group:

During fiscal year 2015, the company took actions to improve the operations of Viking and undertook acquisition integration initiatives related to AGA within the Residential Kitchen Equipment Group. These initiatives included organizational restructuring and headcount reductions, consolidation and disposition of certain facilities and business operations. The company recorded additional expense of $7.0 million in the six months period ended July 2, 2016. This expense is reflected in restructuring expenses in the consolidated statements of comprehensive income. The cumulative expenses incurred to date for these initiatives is approximately $27.5 million. The company estimates that these restructuring initiatives will result in future cost savings of approximately $24.1 million annually, beginning in fiscal year 2016, primarily related to compensation and facility costs. The company anticipates that all severance obligations for the Residential Kitchen Equipment Group will be satisfied by the end of fiscal of 2016. The lease obligations extend through July 2020.

	Severance/Benefits	Facilities/Operations	Other	Total
Balance as of January 2, 2016	$ 15,661	$ 4,642	$120	$20,423
Expenses	6,194	787	(21)	6,960
Exchange	(376)	(26)	(26)	(428)
Payments	(13,377)	(2,822)	26	(16,173)
Balance as of July 2, 2016	$ 8,102	$ 2,581	$99	$10,782

15) Subsequent Event

On July 28, 2016, the company entered into an amended five-year $2.5 billion multi-currency senior revolving credit agreement, with the potential under certain circumstances to increase to $3.0 billion. This facility replaces the company’s pre-existing $1.25 billion senior revolving credit facility, which had an original maturity of August 2017.

At inception, the amended facility bears an interest rate of LIBOR plus a margin of 1.50%, which is adjusted quarterly based upon the company's leverage ratio. The amended facility provides for availability to provide working capital, fund acquisitions and share repurchases so long as the company maintains certain financial ratios.

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

Informational Notes

This report contains forward-looking statements subject to the safe harbor created by the Private Securities Litigation Reform Act of 1995. The company cautions readers that these projections are based upon future results or events and are highly dependent upon a variety of important factors which could cause such results or events to differ materially from any forward-looking statements which may be deemed to have been made in this report, or which are otherwise made by or on behalf of the company. Such factors include, but are not limited to, volatility in earnings resulting from goodwill impairment losses which may occur irregularly and in varying amounts; variability in financing costs; quarterly variations in operating results; dependence on key customers; international exposure; foreign exchange and political risks affecting international sales; ability to protect trademarks, copyrights and other intellectual property; changing market conditions; the impact of competitive products and pricing; the timely development and market acceptance of the company’s products; the availability and cost of raw materials; and other risks detailed herein and from time-to-time in the company’s Securities and Exchange Commission (“SEC”) filings, including the company’s 2015 Annual Report on Form 10-K.

Net Sales Summary
(dollars in thousands)

	Three Months Ended				Six Months Ended			
	Jul 2, 2016		Jul 4, 2015		Jul 2, 2016		Jul 4, 2015	
	Sales	Percent	Sales	Percent	Sales	Percent	Sales	Percent
Business Segments:								
Commercial Foodservice	$321,028	55.3 %	$288,831	66.2 %	$600,014	54.7 %	$551,047	65.4 %
Food Processing	83,475	14.4	71,913	16.5	162,111	14.8	141,732	16.8
Residential Kitchen	175,953	30.3	75,547	17.3	334,686	30.5	150,108	17.8
Total	$580,456	100.0%	$436,291	100.0%	$1,096,811	100.0%	$842,887	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 2, 2016	Jul 4, 2015	Jul 2, 2016	Jul 4, 2015
Net sales	100.0%	100.0%	100.0%	100.0%
Cost of sales	59.8	60.4	60.8	60.8
Gross profit	40.2	39.6	39.2	39.2
Selling, general and administrative expenses	19.8	20.2	20.5	20.7
Restructuring expenses	1.1	0.3	0.7	0.7
Income from operations	19.3	19.1	18.0	17.8
Interest expense and deferred financing amortization, net	1.0	0.9	1.0	0.9
Other (income) expense, net	(0.6)	—	(0.4)	0.5
Earnings before income taxes	18.9	18.2	17.4	16.4
Provision for income taxes	6.3	5.8	5.8	5.4

Net earnings	12.6 %	12.4 %	11.6 %	11.0 %

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Three Months Ended July 2, 2016 as compared to Three Months Ended July 4, 2015

NET SALES. Net sales for the second quarter of fiscal 2016 increased 33.1% to $580.5 million as compared to $436.3 million in the second quarter of 2015. Of the $144.2 million increase in net sales, $127.1 million, or 29.1%, was attributable to acquisition growth, resulting from the fiscal 2015 acquisitions of Induc, AGA and Lynx and the fiscal 2016 acquisition of Follett. Excluding acquisitions, net sales increased $17.1 million, or 3.9%, from the prior year. The impact of foreign exchange rates on foreign sales translated into U.S. Dollars for the second quarter reduced net sales by approximately $4.9 million or 1.1%. Excluding the impact of foreign exchange, organic sales growth was 5.1% for the quarter, including a net sales increase of 6.9% at the Commercial Foodservice Equipment Group, 16.3% increase at the Food Processing Equipment Group and a 12.2% decrease at the Residential Equipment Group.

- Net sales of the Commercial Foodservice Equipment Group increased by $32.2 million, or 11.1%, to $321.0 million in the second quarter of 2016, as compared to $288.8 million in the prior year quarter. Net sales resulting from the acquisitions of Induc and Follett, which were acquired on May 30, 2015 and May 31, 2016 respectively, accounted for an increase of $17.1 million during the second quarter of 2016. Excluding the impact of these acquisitions, net sales of the Commercial Foodservice Equipment Group increased $15.1 million, or 5.2%, as compared to the prior year quarter. Excluding the impact of foreign exchange, organic net sales increased 6.9% at the Commercial Foodservice Group. Domestically, the company realized a sales increase of $11.6 million, or 5.6%, to $217.5 million, as compared to $205.9 million in the prior year quarter. This includes an increase of $14.0 million from the recent acquisitions. Excluding the acquisitions, the net decrease of $2.4 million, or 1.2%, in domestic sales includes continued growth with customer initiatives to improve efficiencies in restaurant operations by adopting new cooking and warming technologies offset by the impact of several large product rollouts with major restaurant chain customers in the prior year quarter. International sales increased $20.4 million, or 24.5%, to $103.5 million, as compared to $83.1 million in the prior year quarter. This includes an increase of $3.1 million from the recent acquisitions offset by a reduction of $4.7 million due to the unfavorable impact of exchange rates. Strong international growth continued in all regions due to more favorable market conditions than in the prior year quarter.
- Net sales of the Food Processing Equipment Group increased by $11.6 million, or 16.1%, to $83.5 million in the second quarter of 2016, as compared to $71.9 million in the prior year quarter. Excluding the impact of foreign exchange, organic net sales increased 16.3% at the Food Processing Equipment Group. Domestically, the company realized a sales increase of $14.9 million, or 30.3%, to $64.0 million, as compared to $49.1 million in the prior year quarter. International sales decreased $3.2 million, or 14.1%, to $19.5 million, as compared to $22.7 million in the prior year quarter. The net sales for the Food Processing Equipment Group reflected revenue recognized from a strong backlog and continued strong incoming order levels as customers continue to upgrade facilities to new technologies and expand capacity to meet growing demand. The growth rates for domestic and international sales also reflects the shift in mix related to the timing of certain larger projects in differing geographic regions that may occur between comparative periods on a normalized basis.
- Net sales of the Residential Kitchen Equipment Group increased by $100.5 million, or 133.1%, to $176.0 million in the second quarter of 2016, as compared to $75.5 million in the prior year quarter. Net sales resulting from the acquisitions of AGA and Lynx, which were acquired on September 23, 2015, and December 15, 2015 respectively, accounted for an increase of $110.0 million during the second quarter of 2016. Excluding the impact of these acquisitions, net sales of the Residential Kitchen Equipment Group decreased $9.5 million, or 12.6%, as compared to the prior year quarter. Excluding the impact of foreign exchange, organic net sales of the Residential Kitchen Equipment Group decreased 12.2%, as compared to the prior year quarter. Domestically, the company realized a sales increase of $27.4 million, or 37.8%, to $99.9 million, as compared to $72.5 million in the prior year quarter. This includes an increase of $36.4 million from the recent acquisitions. International sales increased $73.0 million to $76.0 million, as compared to $3.0 million in the prior year quarter. This includes an increase of $73.5 million from the recent acquisitions. Organic sales growth for the quarter was adversely impacted by lower sales at U-Line due to a prior year new product launch resulting in higher sales to dealers for new product showroom displays. Additionally, sales continued to be affected by the 2015 recall of certain Viking products manufactured prior to 2013 and Middleby's acquisition of Viking. The net organic decrease in sales is net of price increases, which are estimated to

have added approximately 3% to net sales in comparison to the prior year.

GROSS PROFIT. Gross profit increased to $233.5 million in the second quarter of 2016 from $172.9 million in the prior year period, reflecting the impact of higher sales volumes. The increase in the gross profit reflects the impact of increased sales from acquisitions, offset by the impact of foreign exchange rates, which reduced gross profit by $1.4 million. The gross margin rate increased from 39.6% in the second quarter of 2015 to 40.2% in the second quarter of 2016.

- Gross profit at the Commercial Foodservice Equipment Group increased by $21.1 million, or 17.7%, to $140.4 million in the second quarter of 2016, as compared to $119.3 million in the prior year quarter. Gross profit from the acquisitions of Induc and Follett accounted for approximately $6.7 million of the increase in gross profit during the period. Excluding the recent acquisitions, gross profit increase by approximately $14.4 million on higher sales volume. The impact of foreign exchange rates reduced gross profit by approximately $1.2 million. The gross margin rate increased to 43.7% as compared to 41.3% in the prior year quarter, reflecting favorable sales mix in comparison to the prior year.
- Gross profit at the Food Processing Equipment Group increased by $5.1 million, or 18.9%, to $32.1 million in the second quarter of 2016, as compared to $27.0 million in the prior year quarter. The gross margin rate increased to 38.4% as compared to 37.6% in the prior year quarter. The increase in the gross margin rate reflects a higher sales volume and efficiency improvements.
- Gross profit at the Residential Kitchen Equipment Group increased by $35.2 million, or 128.9%, to $62.5 million in the second quarter of 2016, as compared to $27.3 million in the prior year quarter. Gross profit from the acquisitions of AGA and Lynx accounted for approximately $36.6 million of the increase in gross profit during the period. The impact of foreign exchange rates reduced gross profit by approximately $0.1 million. The gross margin rate decreased to 35.5% as compared to 36.2% in the prior year quarter, due to the impact of lower gross margins at the recent acquisitions of AGA and Lynx, offset by improved margins at Viking as a result of cost reduction initiatives.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Combined selling, general and administrative expenses increased from $89.5 million in the second quarter of 2015 to $121.6 million in the second quarter of 2016. As a percentage of net sales, operating expenses were 20.5% in the second quarter of 2015, as compared to 20.9% in the second quarter of 2016.

Selling expenses increased from $45.3 million in the second quarter of 2015 to $58.0 million in the second quarter of 2016. Selling expenses reflect increased costs of $12.5 million associated with the Induc, AGA, Lynx and Follett acquisitions. Additionally, selling expenses increased $1.6 million related to trade show and advertising costs and $0.9 million related to commissions due to increased sales volume. The favorable impact of foreign exchange rates, reduced selling expenses by approximately $0.5 million.

General and administrative expenses increased from $42.7 million in the second quarter of 2015 to $57.2 million in the second quarter of 2016. General and administrative expenses reflect $11.9 million of increased costs associated with the Induc, AGA, Lynx and Follett acquisitions, including $3.9 million of non-cash intangible amortization expense. Additionally, general and administrative expenses increased $0.8 million related to non-cash share-based compensation. The favorable impact of foreign exchange rates, reduced general and administrative expenses by approximately $0.4 million.

Restructuring expenses increased $4.9 million from $1.5 million in the second quarter of 2015 to $6.4 million in the second quarter of 2016 related to acquisition integration initiatives at AGA.

NON-OPERATING EXPENSES. Interest and deferred financing amortization costs increased to $6.1 million in the second quarter of 2016 as compared to $4.0 million in the second quarter of 2015, reflecting increased interest due to higher debt balances related to the funding of acquisitions. Other income was $3.8 million in the second quarter of 2016, as compared to $0.4 million in the prior year second quarter and consists mainly of foreign exchange gains.

INCOME TAXES. A tax provision of $36.8 million, at an effective rate of 33.5%, was recorded during the second quarter of 2016, as compared to a $25.4 million provision at a 31.9% effective rate in the prior year quarter. In comparison to the prior year, the tax provision reflects a higher effective tax rate attributable to the prior year U.S. tax benefit related to foreign earnings.

Six Months Ended July 2, 2016 as compared to Six Months Ended July 4, 2015

NET SALES. Net sales for the six months period ended July 2, 2016 increased 30.1% to $1,096.8 million as compared to $842.9 million in the six months period ended July 4, 2015. Of the $253.9 million increase in net sales, $233.7 million or 27.7%, was attributable to acquisition growth, resulting from the fiscal 2015 acquisitions of Goldstein Eswood, Marsal, Induc, Thurne, AGA and Lynx and the fiscal 2016 acquisition of Follett. Excluding acquisitions, net sales increased $20.2 million or 2.4%, from the prior year. The impact of foreign exchange rates on foreign sales translated into U.S. Dollars for the six months period ended July 2, 2016 reduced net sales by approximately $11.5 million or 1.4%. Excluding the impact of foreign exchange, organic sales growth was 3.8% for the year, including a net sales increase of 7.2% at the Commercial Foodservice Equipment Group, a net sales increase of 11.2% at the Food Processing Equipment Group and a net sales decrease of 15.7% at the Residential Kitchen Equipment Group.

- Net sales of the Commercial Foodservice Equipment Group increased by $49.0 million or 8.9%, to $600.0 million in the six months period ended July 2, 2016, as compared to $551.0 million in the prior year period. Net sales resulting from the acquisitions of Goldstein Eswood, Marsal, Induc and Follett which were acquired on January 30, 2015, February 10, 2015, May 30, 2015 and May 31, 2016, respectively, accounted for an increase of $19.3 million during the six months period ended July 2, 2016. Excluding the impact of acquisitions, net sales of the Commercial Foodservice Equipment Group increased $29.7 million, or 5.4%, as compared to the prior year period. Excluding the impact of foreign exchange, organic net sales increased 7.2% at the Commercial Foodservice Equipment Group. Domestically, the company realized a sales increase of $10.6 million, or 2.7%, to $402.1 million, as compared to $391.5 million in the prior year period. This includes an increase of $14.6 million from recent acquisitions. Excluding the acquisitions, the net decrease was $4.0 million, or 1.0%. Domestic sales reflect continued growth with customer initiatives to improve efficiencies in restaurant operations by adopting new cooking and warming technologies, offset by the impact of several large rollouts with major restaurant chain customers in the prior year period. International sales increased $38.4 million, or 24.1%, to $197.9 million, as compared to $159.5 million in the prior year period. This includes an increase of $4.8 million from the recent acquisitions, offset by $9.8 million related to the unfavorable impact of exchange rates. Strong international growth continued in all regions due to more favorable market conditions than in the prior year quarter.

- Net sales of the Food Processing Equipment Group increased by $20.4 million or 14.4%, to $162.1 million in the six months period ended July 2, 2016, as compared to $141.7 million in the prior year period. Net sales from the acquisition of Thurne, which was acquired on April 7, 2015, accounted for an increase of $5.6 million during the six months period ended July 2, 2016. Excluding the impact of this acquisition, net sales of the Food Processing Equipment Group increased $14.8 million, or 10.4%. Excluding the impact of foreign exchange, organic net sales increased 11.2% at the Food Processing Equipment Group. Domestically, the company realized a sales increase of $34.3 million, or 38.9%, to $122.5 million, as compared to $88.2 million in the prior year period. This includes an increase of $5.3 million from the recent acquisition. International sales decreased $13.9 million, or 26.0%, to $39.6 million, as compared to $53.5 million in the prior year period. This includes of $0.3 million from the recent acquisition offset by $1.0 million related to the unfavorable impact of exchange rates. The variability between domestic and international sales reflects the nature of the large projects at this business segment, which may occur in different geographic segments in comparative periods. The net sales for the Food Processing Equipment Group reflected revenue recognized from a strong backlog and continued strong incoming order levels as customers continue to upgrade facilities to new technologies and expand capacity to meet growing demand. The growth rates for domestic and international sales also reflects the shift in mix related to the timing of certain larger projects in differing geographic regions that may occur between comparative periods on a normalized basis.

Net sales of the Residential Kitchen Equipment Group increased by $184.6 million or 123.0%, to $334.7 million in the six months period ended July 2, 2016, as compared to $150.1 million in the prior year period. Net sales from the acquisitions of AGA and Lynx, which were acquired on September 23, 2015, and December 15, 2015, respectively, accounted for an increase of $208.8 million during the six months period ended July 2, 2016. Excluding the impact of these acquisitions, net sales of the Residential Kitchen Equipment Group decreased $24.2 million, or 16.1%. Excluding the impact of foreign exchange, organic net sales decreased 15.7% at the Residential Kitchen Equipment Group. Domestically, the company realized a sales increase of $38.4 million, or 26.6%, to $182.7 million, as compared to $144.3 million in the prior year period. This includes an increase of $61.5 million from the recent acquisitions. International sales increased $146.2 million to $152.0 million, as compared to $5.8 million in the prior year quarter, including a reduction of $0.7 million related to the unfavorable impact of exchange rates. Organic sales growth for the quarter was adversely impacted by lower sales at U-Line due to a prior year new product launch resulting in higher sales to dealers for new product showroom displays. Additionally, sales continued to be affected by the 2015 recall of certain Viking products manufactured prior to 2013 and Middleby's acquisition of Viking. The net organic decrease in sales is net of price increases, which are estimated to have added approximately 3.0% to net sales in comparison to the prior year.

GROSS PROFIT. Gross profit increased to $430.3 million in the six months period ended July 2, 2016 from $330.5 million in the prior year period. The increase in the gross profit reflects the impact of increased sales from revenue growth and acquisitions, offset by the impact of foreign exchange rates, which reduced gross profit by $3.4 million. The gross margin rate was 39.2% in the six months period ended July 4, 2015 as compared to 39.2% in the current year period.

Gross profit at the Commercial Foodservice Equipment Group increased by $31.8 million, or 14.2%, to $256.3 million in the six months period ended July 2, 2016, as compared to $224.5 million in the prior year period. Gross profit from the acquisitions of Goldstein Eswood, Marsal, Induc and Follett accounted for approximately $7.5 million of the increase in gross profit during the period. Excluding the recent acquisitions, gross profit increased by approximately $24.3 million on higher sales volumes. The impact of foreign exchange rates reduced gross profit by approximately $2.5 million. The gross margin rate increased to 42.7%, as compared to 40.7% in the prior year period, due primarily to changes in sales mix, as compared to the prior year period.

Gross profit at the Food Processing Equipment Group increased by $10.5 million, or 19.8%, to $63.6 million in the six months period ended July 2, 2016, as compared to $53.1 million in the prior year period. Gross profit from the acquisition of Thurne accounted for approximately $3.0 million of the increase in gross profit during the period. The impact of foreign exchange rates reduced gross profit by approximately $0.7 million. Excluding the recent acquisitions, the gross profit increased by approximately $7.5 million on higher sales volume. The gross profit margin rate increased to 39.2%, as compared to 37.5% in the prior year period. The increase in the gross margin rate reflects the favorable impact of ongoing cost efficiency initiatives related to recent acquisitions and favorable sales mix.

Gross profit at the Residential Kitchen Equipment Group increased by $57.0 million, or 103.8%, to $111.9 million in the six months period ended July 2, 2016, as compared to $54.9 million in the prior year period. Gross profit from the acquisitions of AGA and Lynx accounted for approximately $64.2 million of the increase in gross profit during the period. The impact of foreign exchange rates reduced gross profit by approximately $0.2 million. The gross margin rate decreased to 33.4%, as compared to 36.6% in the prior year period, due to the impact of lower gross margins at the recent acquisitions of AGA and Lynx, offset by improved margins at Viking as a result of cost reduction initiatives.

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES. Combined selling, general and administrative expenses increased from $180.5 million in the six months period ended July 4, 2015 to $232.0 million in the six months period ended July 2, 2016. As a percentage of net sales, operating expenses were 21.4% in the six months

period ended July 4, 2015, as compared to 21.2% in the six months period ended July 2, 2016.

Selling expenses increased from $92.4 million in the six months period ended July 4, 2015 to $111.7 million in the six months period ended July 2, 2016. Selling expenses reflected increased costs of $24.4 million associated with the Goldstein Eswood, Thurne, Induc, AGA, Lynx and Follett acquisitions. These expenses were offset by a $1.2 million reduction in employee compensation and $1.3 million of lower trade show and advertising costs. The favorable impact of foreign exchange rates, reduced selling expenses by approximately $1.4 million.

General and administrative expenses increased from $82.0 million in the six months period ended July 4, 2015 to $113.3 million in the six months period ended July 2, 2016. General and administrative expenses reflect $25.6 million of increased costs associated with the Goldstein Eswood, Thurne, Induc, AGA, Lynx and Follett acquisitions, including $7.5 million of non-cash intangible amortization expense. Additionally, general and administrative expenses increased $3.8 million related to non-cash share-based compensation. The favorable impact of foreign exchange rates, reduced general and administrative expenses by approximately $1.0 million.

Restructuring expenses increased $0.9 million from $6.1 million in the six months period ended July 4, 2015 to $7.0 million in the six months period ended July 2, 2016. Restructuring expenses reported in the six months period ended July 2, 2016 related to acquisition integration initiatives to reduce costs related to AGA.

NON-OPERATING EXPENSES. Interest and deferred financing amortization costs were $11.3 million in the six months period ended July 2, 2016, as compared to $7.8 million in the prior year period, reflecting increased interest due to higher debt balances related to the funding of acquisitions. Other income was $4.6 million in the six months period ended July 2, 2016, as compared to other expense of $4.2 million in the prior year period, and consists mainly of net foreign exchange gains and losses. In the prior year period foreign exchange losses were attributable to the strengthening of the U.S. Dollar.

INCOME TAXES. A tax provision of $64.2 million, at an effective rate of 33.5%, was recorded during the six months period ended July 2, 2016, as compared to $45.5 million at an effective rate of 32.9%, in the prior year period. In comparison to the prior year, the tax provision reflects a higher effective tax rate attributable to the prior year U.S. tax benefit related to foreign earnings.

Financial Condition and Liquidity

During the six months ended July 2, 2016, cash and cash equivalents increased by $18.5 million to $74.0 million at July 2, 2016 from $55.5 million at January 2, 2016. Net borrowings increased from $766.1 million at January 2, 2016 to $916.3 million at July 2, 2016.

OPERATING ACTIVITIES. Net cash provided by operating activities was $95.7 million for the six months ended July 2, 2016, compared to $108.8 million for the six months ended July 4, 2015.

During the six months ended July 2, 2016, increased working capital levels reduced operating cash flows by $82.7 million. These changes in working capital levels included a $16.7 million increase in accounts receivable on increased sales. Inventory increased $23.4 million due to timing of large orders for the Food Processing Equipment Group and cyclical working capital requirements for the Commercial Foodservice Equipment Group. Changes in working capital also included a $34.1 million decrease in accrued expenses and other non-current liabilities primarily related to the $14.4 million funding payment for the AGA pension plan, funding of severance obligations associated with AGA restructuring initiatives and the payment of 2015 annual rebate programs at the Commercial Foodservice Equipment Group.

INVESTING ACTIVITIES. During the six months ended July 2, 2016, net cash used for investing activities amounted to $225.1 million. This included $210.1 million of the 2016 acquisitions of Emico and Follett, $1.9 million related to contingent consideration payments from previous years' acquisitions and $13.1 million of additions and upgrades of production equipment and manufacturing facilities.

FINANCING ACTIVITIES. Net cash flows provided by financing activities were $149.4 million during the six months ended July 2, 2016. The company’s borrowing activities included $128.5 million of net proceeds under its $1.25 billion revolving credit facility and $26.2 million of net borrowings under its foreign banking facilities.

The company repurchased $4.4 million of Middleby common shares during the six months ended July 2, 2016. This was comprised of $3.9 million used to repurchase 38,011 that were surrendered to the company by employees in lieu of cash for payment for withholding taxes related to restricted stock vestings that occurred during the six months ended July 2, 2016 and $0.5 million used to repurchase 5,274 shares of its common stock under a stock repurchase program.

At July 2, 2016, the company was in compliance with all covenants pursuant to its borrowing agreements. The company believes that its current capital resources, including cash and cash equivalents, cash generated from operations, funds available from its revolving credit facility and access to the credit and capital markets will be sufficient to finance its operations, debt service obligations, capital expenditures, acquisitions, product development and integration expenditures for the foreseeable future.

Subsequent to the end of the second quarter, the company entered into an amended senior secured multi-currency credit facility. See Note 15 of the Notes to the Condensed Consolidated Financial Statements for further information.

Recently Issued Accounting Standards

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

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

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

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

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

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

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

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

In November 2015, the FASB issued ASU 2015-17 "Income Taxes (Topic 740): Balance Sheet Classification of Deferred Taxes". The amendments in ASU 2015-17 simplify the accounting for, and presentation of, deferred taxes by eliminating the need to separately classify the current amount of deferred tax assets or liabilities. Instead, aggregated deferred tax assets and liabilities are classified and reported as non-current assets or liabilities. The update is effective for annual reporting periods, and interim periods within those reporting periods, beginning after December 15, 2016. Early adoption is permitted for financial statements that have not been issued. The company early adopted ASU 2015-17 effective April 3, 2016 on a prospective basis. Adoption of this ASU resulted in a reclassification of the company's net current deferred tax asset to the net non-current deferred tax liability in the company's Consolidated Balance Sheet as of July 2, 2016. No prior periods were retrospectively adjusted.

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

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

In March 2016, the FASB issues ASU No. 2016-09, "Compensation - Stock Compensation (Topic 718)". The amendments in ASU-09 simplify the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. This ASU is effective for annual reporting periods, and interim periods with those reporting periods, beginning after December 15, 2016. The company is evaluating the impact the application of this ASU will have, if any, on the company's financial position, results of operations or cash flows.

Critical Accounting Policies and Estimates

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

Revenue Recognition. At the Commercial Foodservice Group and the Residential Kitchen Equipment Group, the company recognizes revenue on the sale of its products where title transfers and when risk of loss has passed to the customer, which occurs at the time of shipment, and collectability is reasonably assured. The sale prices of the products sold are fixed and determinable at the time of shipment. Sales are reported net of sales returns, sales incentives and cash discounts based on prior experience and other quantitative and qualitative factors.
At the Food Processing Equipment Group, the company enters into long-term sales contracts for certain products that are often significant relative to the business. Revenue under these long-term sales contracts is recognized using the percentage of completion method defined within ASC 605-35 "Construction-Type and Production-Type Contracts" due to the length of time to fully manufacture and assemble the equipment. The company measures revenue recognized based on the ratio of actual labor hours incurred in relation to the total estimated labor hours to be incurred related to the contract. Because estimated labor hours to complete a project are based upon forecasts using the best available information, the actual hours may differ from original estimates. The percentage of completion method of accounting for these contracts most accurately reflects the status of these uncompleted contracts in the company's financial statements and most accurately measures the matching of revenues with expenses. At the time a loss on a contract becomes known, the amount of the estimated loss is recognized in the consolidated financial statements. Revenue for sales of products and services not covered by long-term sales contracts is recognized when risk of loss has passed to the customer, which occurs at the time of shipment and collectability is reasonably assured. The sale prices of the products sold are fixed and determinable at the time of shipment. Sales are reported net of sales returns, sales incentives and cash discounts based on prior experience and other quantitative and qualitative factors.
Inventories. Inventories are stated at the lower of cost or market using the first-in, first-out method for the majority of the company's inventories. The company evaluates the need to record valuation adjustments for inventory on a regular basis. The company's policy is to evaluate all inventories including raw material, work-in-process, finished goods, and spare parts. Inventory in excess of estimated usage requirements is written down to its estimated net realizable value. Inherent in the estimates of net realizable value are estimates related to our future manufacturing schedules, customer demand, possible alternative uses, and ultimate realization of potentially excess inventory.
Goodwill and Other Intangibles. The company's business acquisitions result in the recognition of goodwill and other intangible assets, which are a significant portion of the company's total assets. The company recognizes goodwill and other intangible assets under the guidance of ASC Topic 350-10, "Intangibles — Goodwill and Other". Goodwill represents the excess of acquisition costs over the fair value of the net tangible assets and identifiable intangible assets acquired in a business combination. Identifiable intangible assets are recognized separately from goodwill and include trademarks and trade names, technology, customer relationships and other specifically identifiable assets. Trademarks and trade names are deemed to be indefinite-lived. Goodwill and indefinite-lived intangible assets are not amortized, but are subject to impairment testing. On an annual basis, or more frequently if triggering events occur, the company compares the estimated fair value to the carrying value to determine if a potential goodwill impairment exists. If the fair value is less than its carrying value, an impairment loss, if any, is recorded for the difference between the implied fair value and the carrying value of goodwill. In estimating the fair value of specific intangible assets, management relies on a number of factors, including operating results, business plans, economic projections, anticipated future cash flows, comparable transactions and other market data. There are inherent uncertainties related to these factors and management's judgment in applying them in the impairment tests of goodwill and other intangible assets.

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

The amount of unrecognized actuarial gains and losses recognized in the current year's operations is based on amortizing the unrecognized gains or losses for each plan that exceed the larger of 10% of the projected benefit obligation or the fair value of plan assets, also known as the corridor. The amount of unrecognized gain or loss that exceeds the corridor is amortized over the average future service of the plan participants or the average life expectancy

of inactive plan participants for plans where all or almost all of the plan participants are inactive. While we believe that our assumptions are appropriate, significant differences in our actual experience or significant changes in our assumptions may materially affect our pension obligations and our future expense.

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

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

Twelve Month Period Ending	Variable Rate Debt
July 2, 2017	$53,755
July 2, 2018	861,800
July 2, 2019	104
July 2, 2020	104
July 2, 2021 and thereafter	563
	$916,326

On August 7, 2012, the company entered into a senior secured multi-currency credit facility. Terms of the company's senior credit agreement provide for $1.25 billion of availability under a revolving credit line. As of July 2, 2016, the company had $861.5 million of borrowings outstanding under this facility. The company also had $6.3 million in outstanding letters of credit as of July 2, 2016, which reduces the borrowing availability under the revolving credit line. Remaining borrowing availability under this facility was $382.2 million at July 2, 2016.

At July 2, 2016, borrowings under the senior secured credit facility were assessed at an interest rate of 1.50% above LIBOR for long-term borrowings or at the higher of the Prime rate and the Federal Funds Rate. The average interest rate on the senior debt amounted to 2.07%. The interest rates on borrowings under the senior secured credit facility may be adjusted quarterly based on the company's indebtedness ratio on a rolling four-quarter basis. Additionally, a commitment fee based upon the indebtedness ratio is charged on the unused portion of the revolving credit line. This variable commitment fee amounted to 0.25% as of July 2, 2016.

In September 2015, the company completed its acquisition of AGA Rangemaster Group plc in the United Kingdom. At the time of acquisition, credit facilities denominated in British Pounds, Euro and U.S. dollars, had been established to fund local working capital needs. At July 2, 2016, these facilities amounted to $47.0 million in U.S. dollars. The average interest rate assessed on these facilities was approximately 2.46%.

In addition, the company has other international credit facilities to fund working capital needs outside the United States and the United Kingdom. At July 2, 2016, these foreign credit facilities amounted to $7.6 million in U.S. dollars with a weighted average interest rate of approximately 9.99%.

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

The company uses floating-to-fixed interest rate swap agreements to hedge variable interest rate risk associated with the revolving credit line. At July 2, 2016, the company had outstanding floating-to-fixed interest rate swaps totaling $90.0 million notional amount carrying an average interest rate of 0.82% maturing in less than 12 months and $85.0 million notional amount carrying an average interest rate of 0.98% that mature in more than 12 months but less than 24 months.

The terms of the senior secured credit facility limit the ability of the company and its subsidiaries to, with certain exceptions: incur indebtedness; grant liens; engage in certain mergers, consolidations, acquisitions and dispositions; make restricted payments; enter into certain transactions with affiliates; and require, among other things, a maximum ratio of indebtedness to EBITDA of 3.5 and a fixed charge coverage ratio (as defined in the senior secured credit facility) of 1.25. The senior secured 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 domestic subsidiaries. The senior secured 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. The credit agreement also provides that if a material adverse change in the company’s business operations or conditions occurs, the lender could declare an event of default. Under terms of the agreement, a material adverse effect is defined as (a) a material adverse change in, or a material adverse effect upon, the operations, business properties, condition (financial and otherwise) or prospects of the company and its subsidiaries taken as a whole; (b) a material impairment of the ability of the company to perform under the loan agreements and to avoid any event of default; or (c) a material adverse effect upon the legality, validity, binding effect or enforceability against the company of any loan document. A material adverse effect is determined on a subjective basis by the company's creditors. The potential loss on fair value for the company's debt obligations 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. At July 2, 2016, the company was in compliance with all covenants pursuant to its borrowing agreements.

Subsequent to the end of the second quarter, the company entered into an amended senior secured multi-currency credit facility. See Note 15 of the Notes to the Condensed Consolidated Financial Statements for further information.

Financing Derivative Instruments

The company has entered into interest rate swaps to fix the interest rate applicable to certain of its variable-rate debt. The agreements swap one-month LIBOR for fixed rates. The company has designated these swaps as cash flow hedges and all changes in fair value of the swaps are recognized in accumulated other comprehensive income. As of July 2, 2016, the fair value of these instruments was a liability of $0.6 million. The change in fair value of these swap agreements in the first six months of 2016 was a loss of less than $0.1 million, net of taxes. The potential net loss on fair value for such instruments from a hypothetical 10% adverse change in quoted interest rates would not have a material impact on the company's financial position, results of operations and cash flows.

Foreign Exchange Derivative Financial Instruments

The company uses foreign currency forward and option purchase and sales contracts with terms of less than one year to hedge its exposure to changes in foreign currency exchange rates. The company’s primary hedging activities are to mitigate its exposure to changes in exchange rates on intercompany and third party trade receivables and payables. The company does not currently enter into derivative financial instruments for speculative purposes. In managing its foreign currency exposures, the company identifies and aggregates naturally occurring offsetting positions and then hedges residual balance sheet exposures. The potential net loss on fair value for such instruments from a hypothetical 10% adverse change in quoted foreign exchange rates would not have a material impact on the company's financial position, results of operations and cash flows. The fair value of the forward and option contracts was a gain of $3.1 million at the end of the second quarter of 2016.

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 2, 2016, 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 2, 2016, 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 2, 2016, 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 3 to April 30, 2016	—	$ —	—	2,610,047
May 1 to May 28, 2016	—	—	—	2,610,047
May 28 to July 2, 2016	—	—	—	2,610,047
Quarter ended July 2, 2016	—	$ —	—	2,610,047

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

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

Exhibit 31.1 –	Rule 13a-14(a)/15d -14(a) Certification of the Chief Executive Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2 –	Rule 13a-14(a)/15d -14(a) Certification of the Chief Financial Officer as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1 –	Certification by the Principal Executive Officer of The Middleby Corporation Pursuant to Rule 13A-14(b) under the Exchange Act and Section 906 of the Sarbanes-Oxley Act of 2002(18 U.S.C. 1350).
Exhibit 32.2 –	Certification by the Principal Financial Officer of The Middleby Corporation Pursuant to Rule 13A-14(b) under the Exchange Act and Section 906 of the Sarbanes-Oxley Act of 2002(18 U.S.C. 1350).
Exhibit 101 –	Financial statements on Form 10-Q for the quarter ended July 2, 2016, filed on August 11, 2016, formatted in Extensive Business Reporting Language (XBRL); (i) condensed consolidated balance sheets, (ii) condensed consolidated statements of earnings, (iii) condensed statements of cash flows, (iv) notes to the condensed consolidated financial statements.

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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 11, 2016	By:	/s/ Timothy J. FitzGerald
		Timothy J. FitzGerald
		Vice President,
		Chief Financial Officer

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