

MIDDLEBY CORP
Form 10-K
March 15, 2007

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

FORM 10-K

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

For the Fiscal Year Ended December 30, 2006

or

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

Commission File No. 1-9973

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

Delaware

(State or other jurisdiction of incorporation or organization)

36-3352497

(IRS Employer Identification Number)

1400 Toastmaster Drive, Elgin, Illinois

(Address of principal executive offices)

60120

(Zip Code)

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

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

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Stock, par value \$0.01 per share	The Nasdaq Stock Market LLC

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

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

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

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

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

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

The aggregate market value of the voting stock held by nonaffiliates of the Registrant as of July 1, 2006 was approximately \$641,162,187.

The number of shares outstanding of the Registrant's class of common stock, as of March 9, 2007, was 7,970,623 shares.

Documents Incorporated by Reference

Part III of Form 10-K incorporates by reference the Registrant's definitive proxy statement to be filed pursuant to Regulation 14A in connection with the 2007 annual meeting of stockholders.

THE MIDDLEBY CORPORATION AND SUBSIDIARIES
DECEMBER 30, 2006
FORM 10-K ANNUAL REPORT
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PART I

Item 1. Business

General

The Middleby Corporation (“Middleby” or the “company”), through its operating subsidiary Middleby Marshall Inc. (“Middleby Marshall”) and its subsidiaries, is a leader in the design, manufacture, marketing, distribution, and service of a broad line of cooking equipment and related products used in all types of commercial restaurants, institutional kitchens, and food processing operations. The company's products designed for commercial restaurants and institutional kitchens include Middleby Marshall® and CTX® conveyor oven equipment, Blodgett® convection ovens, conveyor ovens, deck oven equipment, Blodgett Combi® cooking equipment, Blodgett Range® ranges, Nu-Vu® baking ovens and proofers, Pitco Frialator® fryer equipment, Southbend® ranges, convection ovens and heavy-duty cooking equipment, Toastmaster® toasters and counterline cooking and warming equipment, Houno® combi-ovens and baking ovens and MagiKitch'n® charbroilers and catering equipment. Products designed for the food processing industry include Alkar® batch ovens, conveyor ovens and continuous processing cooking systems, and Rapidpak® packaging and food safety equipment.

Founded in 1888 as a manufacturer of baking ovens, Middleby Marshall Oven Company was acquired in 1983 by TMC Industries Ltd., a publicly traded company that changed its name in 1985 to The Middleby Corporation. Throughout its history, the company had been a leading innovator in the baking equipment industry and in the early 1980s positioned itself as a leading foodservice equipment manufacturer by introducing the conveyor oven that revolutionized the pizza market. In 1989, the company became a broad line equipment manufacturer through the acquisition of the Foodservice Equipment Group of Hussmann Corporation, which included Southbend, Toastmaster and CTX.

The company identified the international markets as an area of growth. To capture these markets, the company acquired a controlling interest in Asbury Associates, Inc. in 1990, which was renamed Middleby Worldwide in 1999. Middleby's global sales and service network enables it to offer equipment to be delivered virtually anywhere in the world. The company believes that its global network provides it with a competitive advantage that positions the company as a preferred foodservice equipment supplier to major restaurant chains expanding globally. Further expanding its international capabilities, the company established Middleby Philippines Corporation (“MPC”) in 1991. The establishment of MPC provided for a low cost and local base of manufacturing for the expanding Asian markets.

In 2001, Middleby acquired the commercial cooking subsidiary, Blodgett Holdings, Inc. (“Blodgett”) from Maytag Corporation (“Maytag”) to expand its line up of products in all the major cooking equipment segments. The acquisition resulted in the addition of the Blodgett, Pitco and MagiKitch'n brand names into the company's portfolio. The acquisition of Blodgett established Middleby as a leading company in the commercial foodservice equipment segment and provided for a complete line of cooking equipment, which enabled the company to service most restaurant chain customers. In January 2005, the company acquired the assets of Nu-Vu Foodservice Systems, a leader in baking ovens and proofing equipment, to further expand its line of ovens and position the company to benefit from the growing trend of on-premise baking.

In December 2005, the company acquired Alkar Holdings Inc. ("Alkar"), a leading manufacturer of ovens and packaging machines for the food processing industry. Alkar Holdings, Inc. designs, manufactures, and markets batch ovens, conveyor ovens and continuous cooking systems under the Alkar brand, and related food packaging and food safety equipment under the Rapidpak brand. This acquisition enabled the company to expand its customer base to include food processing companies.

In August 2006, the company acquired Houno A/S ("Houno"), a leading manufacturer of combi-ovens and baking ovens, located in Denmark, to further penetrate the fast growing combi-oven market.

In February 2007, subsequent to the fiscal 2006 year end, the company announced that it had entered into an agreement to acquire the assets and operations of Jade Products Company ("Jade"). The acquisition is expected to be completed on April 2, 2007. This acquisition will complement the company's current commercial foodservice range equipment product offerings.

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

Business Divisions and Products

The company conducts its business through three principal business divisions: the commercial foodservice equipment group; the industrial foodservice equipment group; and the international distribution division. See Note 10 to the Consolidated Financial Statements for further information on the company's business divisions.

Commercial Foodservice Equipment Group

The Commercial Foodservice Equipment Group develops, manufactures, markets, distributes and services equipment used for cooking and food preparation in commercial and institutional kitchens and restaurants throughout the world. This cooking and warming equipment is used across all types of foodservice operations, including quick-service restaurants, full-service restaurants, retail outlets, hotels and other institutions. The company offers a broad line of cooking equipment marketed under a portfolio of eleven brands, including, Blodgett®, Blodgett Combi®, Blodgett Range®, CTX®, Houno®, MagiKitch'n®, Middleby Marshall®, NuVu®, Pitco®, Southbend®, Toastmaster® and Visual Cooking®. These products are manufactured at the company's facilities in Illinois, Michigan, New Hampshire, North Carolina, Vermont, Denmark and the Philippines.

The division's principal product groups include:

· Core Cooking Equipment Product Group: manufactures equipment that is central to most restaurant kitchens. The products offered by this group include ranges, convection ovens, baking ovens, proofers, broilers, fryers, combi-ovens, charbroilers and steam equipment. These products are marketed under the Blodgett®, Pitco Frialator®, Southbend®, MagiKitch'n® and Nu-Vu® brands. Blodgett®, known for its durability and craftsmanship, is the leading brand of convection and combi ovens. In demand since the late 1800's, the Blodgett oven has stood the test of time and set the industry standard. Pitco Frialator® offers a broad line of gas and electric equipment combining reliability with efficiency in simple-to-operate professional frying equipment. Since 1918, Pitco fryers have captured a major market share by offering simple, reliable equipment for cooking menu items such as french fries, onion rings, chicken, donuts, and seafood. For over 100 years, Southbend® has produced a broad array of heavy-duty, gas-fired equipment, include ranges, convection ovens, broilers, and steam cooking equipment. Southbend has dedicated significant resources to developing and introducing innovative product features resulting in a premier cooking line. For more than 60 years, MagiKitch'n® has focused on manufacturing charbroiling products that deliver quality construction, high performance and flexible operation. For 30 years, Houno has manufactured quality combi-ovens and baking ovens.

· Conveyor Oven Equipment Product Group: manufactures ovens that are desirable for high volume applications, providing for high levels of production and efficiency while allowing a restaurant owner to retain flexibility in menu offerings. Conveyor oven equipment allows for simplification of the food preparation process, which in turn provides for labor savings opportunities and a greater consistency of the final product. Conveyor oven equipment products are marketed under the Middleby Marshall®, Blodgett® and CTX® brands.

· Counterline Cooking Equipment Product Group: manufactures predominantly light and medium-duty electric equipment, including pop-up and conveyor toasters, hot food servers, foodwarmers and griddles marketed under the Toastmaster® brand name to commercial restaurants and institutional kitchens.

· International Specialty Equipment Product Group: provides reduced-cost manufacturing capabilities in the Philippines. The group is a leading supplier of specialty equipment in the Asian markets, including fryers and counterline equipment, as well as component parts for the company's domestic operations.

Industrial Foodservice Equipment Group

The Industrial Foodservice Equipment Group develops, manufactures, markets, distributes and services equipment used for cooking, chilling and packaging in food processing operations throughout the world. Customers include large international food processing companies throughout the world. The company is recognized as a market leader in the manufacturing of equipment for producing pre-cooked meat products such as hot dogs, dinner sausages, poultry and lunchmeats. The company's products include batch ovens, conveyor ovens, and continuous cooking systems marketed under the Alkar brand, and packaging machinery and food safety equipment marketed under the Rapidpak brand. Through its broad line of products, the company is able deliver a wide array of cooking solutions to service a variety of food processing requirements demanded by its customers. The Alkar and Rapidpak product lines are manufactured at the company's facilities in Lodi, Wisconsin.

International Distribution Division

The International Distribution Division provides integrated export management and distribution services. The division distributes the company's product lines and certain non-competing complementary product lines of other manufacturers throughout the world. The company offers customers a complete package of kitchen equipment, delivered and installed in over 100 countries. For a local country distributor or dealer, the division provides centralized sourcing of a broad line of equipment with complete export management services, including export documentation, freight forwarding, equipment warehousing and consolidation, installation, warranty service and parts support. The International Distribution Division has regional export management companies in Asia, Europe and Latin America complemented by sales and distribution offices located in China, India, Lebanon, Mexico, the Philippines, Russia, South Korea, Spain, Sweden, Taiwan and the United Kingdom.

The Customers and Market

Commercial Foodservice Equipment Industry

The company's end-user customers include: (i) fast food or quick-service restaurants, (ii) full-service restaurants, including casual-theme restaurants, (iii) retail outlets, such as convenience stores, supermarkets and department stores and (iv) public and private institutions, such as hotels, resorts, schools, hospitals, long-term care facilities, correctional facilities, stadiums, airports, corporate cafeterias, military facilities and government agencies. The company's domestic sales are primarily through independent dealers and distributors and are marketed by the company's sales personnel and network of independent manufacturers' representatives. Many of the dealers in the U.S. belong to buying groups that negotiate sales terms with the company. Certain large multi-national restaurant and hotel chain customers have purchasing organizations that manage product procurement for their systems. Included in these customers are several large restaurant chains, which account for a significant portion of the company's business. The company's international sales are through a combined network of independent and company-owned distributors. The company maintains sales and distribution offices in China, India, Lebanon, Mexico, the Philippines, Russia, South Korea, Spain, Sweden, Taiwan and the United Kingdom.

During the past several decades, growth in the U.S. foodservice industry has been driven primarily by population growth, economic growth and demographic changes, including the emergence of families with multiple wage-earners and growth in the number of higher-income households. These factors have led to a demand for convenience and speed in food preparation and consumption. As a result, U.S. foodservice sales grew for the fifteenth consecutive year to approximately \$511 billion in 2006 as reported by The National Restaurant Association. Sales in 2007 are projected to increase to \$537 billion, an increase of 5.1% over 2006, according to The National Restaurant Association. The quick-service restaurant segment within the foodservice industry has been the fastest growing segment since the mid '80's. Total quick-service sales amounted to \$143.0 billion in 2006 and are projected to increase 5.0% to \$150.1 billion in 2007, as reported by The National Restaurant Association. The full-service restaurants represent the largest portion of the foodservice industry and represented \$173 billion in sales in 2006 and are projected to increase 5.1% to \$181.6 billion in 2007, as reported by The National Restaurant Association. This segment has seen increased chain concepts and penetration in recent years driven by the aging of the baby boom generation.

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

The company believes that the worldwide commercial foodservice equipment market has sales in excess of \$20 billion. The cooking and warming equipment segment of this market is estimated by management to exceed \$1.5 billion in North America and \$2.5 billion worldwide. The company believes that continuing growth in demand for foodservice equipment will result from the development of new restaurant concepts in the U.S. and the expansion of U.S. chains into international markets, the replacement and upgrade of existing equipment and new equipment requirements resulting from menu changes.

Industrial Foodservice Equipment Industry

The company's customers include a diversified base of leading food processors, including virtually every leading global meat processor. A large portion of the company's revenues have been generated from producers of pre-cooked meat products such as hot dogs, dinner sausages, poultry, and lunchmeats, however, the company believes that it can leverage its expertise and product development capabilities in thermal processing to organically grow into new end markets.

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

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

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

The global food processing equipment industry is highly fragmented, large and growing. The company estimates demand for food equipment is approximately \$3 billion in the U.S and \$20 billion worldwide. The cooking and baking segment of this market is estimated by management to exceed \$0.5 billion in the U.S. and \$1.5 billion worldwide.

Backlog

The company's backlog of orders was \$47,017,000 at December 30, 2006, all of which is expected to be filled during 2007. The acquired Houno business accounted for \$1,864,000 of backlog. The company's backlog, excluding orders for Houno equipment, was \$44,977,000 at December 31, 2005. The backlog is not necessarily indicative of the level of business expected for the year, as there is generally a short time between order receipt and shipment for the majority of the company's products.

Marketing and Distribution

Commercial Foodservice Equipment Group

Middleby's products and services are marketed in the U.S. and in over 100 countries through a combination of the company's sales personnel and international marketing divisions and subsidiaries, together with an extensive network of independent dealers, distributors, consultants, sales representatives and agents. The company's relationships with major restaurant chains are primarily handled through an integrated effort of top-level executive and sales management at the corporate and business division levels to best serve each customer's needs.

In the United States, the company distributes its products to independent end-users primarily through a network of non-exclusive dealers nationwide, who are supported by manufacturers' marketing representatives. Sales are made direct to certain large restaurant chains that have established their own procurement and distribution organization for their franchise system.

International sales are primarily made through the International Distribution Division network to independent local country stocking and servicing distributors and dealers and, at times, directly to major chains, hotels and other large end-users.

Industrial Foodservice Equipment Group

The company maintains a direct sales force to market both the Alkar and Rapidpak brands and maintains direct relationships with each of its customers. The company also involves division management in the relationships with large global accounts. In North America, the company employs ten regional sales managers, each with responsibility for a group of customers and a particular region. Internationally, the company maintains two global sales managers supported by a network of independent sales representatives.

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

Services and Product Warranty

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

Commercial Foodservice Equipment Group

The company's domestic service network consists of over 100 authorized service parts distributors and 3,000 independent certified technicians who have been formally trained and certified by the company through its factory training school and on-site installation training programs. Technicians work through service parts distributors, which are required to provide around-the-clock service via a toll-free paging number. The company provides substantial technical support to the technicians in the field through factory-based technical service engineers. The company has stringent parts stocking requirements for these agencies, leading to a high first-call completion rate for service and warranty repairs.

It is critical to major foodservice chains that equipment providers be capable of supporting equipment on a worldwide basis. The company's international service network covers over 100 countries with more than 1,000 service technicians trained in the installation and service of the company's products and supported by internationally-based service managers along with the factory-based technical service engineers. As with its domestic service network, the company maintains stringent parts stocking requirements for its international distributors.

Industrial Foodservice Equipment Group

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

Competition

The cooking and warming segments of the commercial and industrial foodservice equipment industries are highly competitive and fragmented. Within a given product line, the industry remains fairly concentrated, with typically a small number of competitors accounting for the bulk of the line's industry-wide sales. Industry competition includes companies that manufacture a broad line of products and those that specialize in a particular product line. Competition is based upon many factors, including brand recognition, product features and design, quality, price, delivery lead times, serviceability and after-sale service. The company believes that its ability to compete depends on strong brand equity, exceptional product performance, short lead-times and timely delivery, competitive pricing, and its superior customer service support. In the international markets, the company competes with U.S. manufacturers and numerous global and local competitors.

The company believes that it is one of the largest multiple-line manufacturers of cooking and warming equipment in the U.S. and worldwide, although some of its competitors are units of operations that are larger than the company and possess greater financial and personnel resources. Among the company's major competitors are Enodis plc; Vulcan-Hart Corporation, a subsidiary of Illinois Tool Works Inc.; Wells Manufacturing Company, a subsidiary of United Technologies Corporation; Zanussi, a subsidiary of Electrolux AB; and Ali Group.

Manufacturing and Quality Control

The company manufactures product in six domestic and two international production facilities. In Elgin, Illinois, the company manufactures conveyor ovens. In Burlington, Vermont the company manufactures its combi oven, convection oven and deck oven product lines. In Fuquay-Varina, North Carolina, the company manufactures ranges, steamers, combi ovens, convection ovens and broiling equipment. In Bow, New Hampshire, the company manufactures fryers, charbroilers and catering equipment products. In Menominee, Michigan the company manufactures baking ovens, proofers and counterline equipment. In Lodi, Wisconsin the company engineers and manufactures cooking and chilling systems and packaging equipment that serves customers in the industrial foodservice industry. In Randers, Denmark, the company manufactures combi-ovens and baking ovens. In Laguna, the Philippines the company manufactures fryers, counterline equipment and component parts for the U.S. manufacturing facilities. Metal fabrication, finishing, sub-assembly and assembly operations are conducted at each manufacturing facility. Equipment installed at individual manufacturing facilities includes numerically controlled turret presses and machine centers, shears, press brakes, welding equipment, polishing equipment, CAD/CAM systems and product testing and quality assurance measurement devices. The company's CAD/CAM systems enable virtual electronic prototypes to be created, reviewed and refined before the first physical prototype is built.

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

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

Sources of Supply

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

Research and Development

The company believes its future success will depend in part on its ability to develop new products and to improve existing products. Much of the company's research and development efforts are directed to the development and improvement of products designed to reduce cooking time, reduce energy consumption, minimize labor costs or improve product yield, while maintaining consistency and quality of cooking production. The company has identified these issues as key concerns of most customers. The company often identifies product improvement opportunities by working closely with customers on specific applications. Most research and development activities are performed by the company's technical service and engineering staff located at each manufacturing location. On occasion, the company will contract outside engineering firms to assist with the development of certain technical concepts and applications. See Note 4(n) to the Consolidated Financial Statements for further information on the company's research and development activities.

Licenses, Patents, and Trademarks

The company owns numerous trademarks and trade names; among them, Alkarâ, Blodgettâ, Blodgett Combiâ, Blodgett Rangeâ, CTXâ, Hounoâ, MagiKitch'nâ, Middleby Marshallâ, Nu-Vuâ, Pitco Frialatorâ, RapidPakâ, Southbendâ, SteamMasterâ, Toastmasterâ and Visual Cookingâ are registered with the U.S. Patent and Trademark Office and in various foreign countries.

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

Middleby Marshall has an exclusive license from Enersyst Development Center LLC (“Enersyst”) to manufacture, use and sell Jetsweep air impingement ovens in the U.S. for commercial food service applications. This license covers numerous existing patents and provides further exclusive and non-exclusive license rights to existing and future developed technology. The Enersyst license expires upon the later of the expiration of licensed patents or October 1, 2008. Certain individual patents covered under the Enersyst license agreements expire at various dates through 2019 or later. While the loss of the Enersyst license or could have an adverse effect on the company, management believes it is capable of designing, manufacturing and selling similar equipment without it.

Employees

As of December 30, 2006, the company employed 1,282 persons. Of this amount, 494 were management, administrative, sales, engineering and supervisory personnel; 522 were hourly production non-union workers; and 266 were hourly production union members. Included in these totals were 299 individuals employed outside of the United States, of which 187 were management, sales, administrative and engineering personnel, 58 were hourly production non-union workers and 54 were hourly production workers, who participate in an employee cooperative. At its Lodi, Wisconsin facility, the company has a contract with the International Association of Bridge, Structural, Ornamental and Reinforcing Ironworkers that expires on February 1, 2008. At its Elgin, Illinois facility, the company has a union contract with the International Brotherhood of Teamsters that expires on April 30, 2007. The company also has a union workforce at its manufacturing facility in the Philippines, under a contract that extends through June 2011. Management believes that the relationships between employees, union and management are good.

Seasonality

The company’s revenues historically have been stronger in the second and third quarters due to increased purchases from customers involved with the catering business and institutional customers, particularly schools, during the summer months.