PERFORMANCE FOOD GROUP CO
Form 10-Q
November 06, 2007

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended September 29, 2007

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from __________ to __________

Commission File No.: 0-22192

PERFORMANCE FOOD GROUP COMPANY

(Exact name of registrant as specified in its charter)

Tennessee	54-0402940
(State or other jurisdiction of incorporation or organization)	(I.R.S. employer identification number)
12500 West Creek Parkway Richmond, Virginia	23238
(Address of Principle Executive Offices)	(Zip Code)

(804) 484-7700

(Registrant s telephone number, including area code)

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.

þ Yes o No

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. (Check one):

þ Large accelerated filer o Accelerated filer o Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

o Yes þ No

As of November 1, 2007, 35,481,351 shares of the issuer s common stock were outstanding.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Performance Food Group Company:

We have reviewed the accompanying condensed consolidated balance sheet of Performance Food Group Company and subsidiaries (the Company) as of September 29, 2007, the related condensed consolidated statements of earnings for the three-month and nine-month periods ended September 29, 2007 and September 30, 2006 and the related condensed consolidated statements of cash flows for the nine-month periods ended September 29, 2007 and September 30, 2006. These condensed consolidated financial statements are the responsibility of the Company s management.

We conducted our reviews in accordance with standards of the Public Company Accounting Oversight Board (United States). A review of interim financial information consists principally of applying analytical procedures to financial data and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with the standards of the Public Company Accounting Oversight Board (United States), the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Based on our reviews, we are not aware of any material modifications that should be made to the condensed consolidated financial statements referred to above for them to be in conformity with U.S. generally accepted accounting principles.

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Performance Food Group Company and subsidiaries as of December 30, 2006, and the related consolidated statements of earnings, shareholders equity and cash flows for the year then ended (not presented herein); and in our report dated February 26, 2007, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of December 30, 2006 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP
Richmond, Virginia
November 5, 2007

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.

PERFORMANCE FOOD GROUP COMPANY AND SUBSIDIARIES

Condensed Consolidated Balance Sheets (Unaudited)

(In thousands)	September 29, 2007	December 30, 2006
Assets		
Current assets:		
Cash and cash equivalents	$ 97,524	$ 75,087
Accounts receivable, net, including retained interest in securitized receivables	224,840	226,058
Inventories	343,468	308,901
Other current assets	36,598	35,419
Total current assets	702,430	645,465
Goodwill, net	356,509	356,509
Property, plant and equipment, net	309,103	291,947
Other intangible assets, net	45,040	47,575
Other assets	19,846	18,279
Total assets	$ 1,432,928	$ 1,359,775
Liabilities and Shareholders Equity		
Current liabilities:		
Outstanding checks in excess of deposits	$ 96,363	$ 88,023
Current installments of long-term debt	63	583
Trade accounts payable	291,538	269,590
Other current liabilities	138,533	146,524
Total current liabilities	526,497	504,720
Long-term debt and capital lease obligations, excluding current installments	9,546	11,664
Deferred income taxes	53,301	48,582
Total liabilities	589,344	564,966
Shareholders equity	843,584	794,809
Total liabilities and shareholders equity	$ 1,432,928	$ 1,359,775

See accompanying notes to unaudited condensed consolidated financial statements.

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PERFORMANCE FOOD GROUP COMPANY AND SUBSIDIARIES
Condensed Consolidated Statements of Earnings (Unaudited)

(In thousands, except per share amounts)	Three Months Ended September 29, 2007	Three Months Ended September 30, 2006	Nine Months Ended September 29, 2007	Nine Months Ended September 30, 2006
Net sales	$1,578,888	$ 1,429,765	$4,673,285	$ 4,347,285
Cost of goods sold	1,370,975	1,235,412	4,063,438	3,772,475
Gross profit	207,913	194,353	609,847	574,810
Operating expenses	182,717	174,242	548,766	522,447
Operating profit	25,196	20,111	61,081	52,363
Other expense, net:				
Interest income	973	818	2,676	1,680
Interest expense	(521)	(394)	(1,620)	(1,118)
Loss on sale of receivables	(1,964)	(1,903)	(5,712)	(5,402)
Other, net	57	121	136	274
Other expense, net	(1,455)	(1,358)	(4,520)	(4,566)
Earnings from continuing operations before income taxes	23,741	18,753	56,561	47,797
Income tax expense from continuing operations	7,660	6,578	20,526	17,780
Earnings from continuing operations, net of tax	16,081	12,175	36,035	30,017
Loss from discontinued operations	(44)	(132)	(238)	(150)
Net earnings	$ 16,037	$ 12,043	$ 35,797	$ 29,867
Weighted average common shares outstanding:				
Basic	34,843	34,369	34,707	34,322
Diluted	35,230	34,624	35,150	34,780
Basic earnings (loss) per common share:				
Continuing operations	$ 0.46	$ 0.35	$ 1.04	$ 0.87
Discontinued operations			(0.01)	
Net earnings	$ 0.46	$ 0.35	$ 1.03	$ 0.87
Diluted earnings (loss) per common share:				
Continuing operations	$ 0.46	$ 0.35	$ 1.03	$ 0.86
Discontinued operations			(0.01)	

Net earnings	$	0.46	$	0.35	$	1.02	$	0.86

See accompanying notes to unaudited condensed consolidated financial statements.

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PERFORMANCE FOOD GROUP COMPANY AND SUBSIDIARIES

Condensed Consolidated Statements of Cash Flows (Unaudited)

(In thousands)	**Nine Months Ended September 29, 2007**	**Nine Months Ended September 30, 2006**
Cash flows from operating activities of continuing operations:		
Earnings from continuing operations	$ 36,035	$ 30,017
Adjustments to reconcile net earnings from continuing operations to net cash provided by operating activities of continuing operations:		
Depreciation	19,860	18,776
Amortization	2,289	2,523
Stock compensation expense	4,803	3,605
Deferred income taxes	7,656	(3,144)
Tax benefit on exercise of equity awards	860	825
Other	154	872
Change in operating assets and liabilities, net	(22,797)	(7,417)
Net cash provided by operating activities of continuing operations	48,860	46,057
Cash flows from investing activities of continuing operations:		
Purchases of property, plant and equipment	(52,504)	(34,499)
Proceeds from sale of property, plant and equipment	15,938	324
Net cash used in investing activities of continuing operations	(36,566)	(34,175)
Cash flows from financing activities of continuing operations:		
Increase (decrease) in outstanding checks in excess of deposits	8,340	(9,894)
Principal payments on long-term debt	(2,638)	(427)
Proceeds from employee stock option, incentive and purchase plans	6,965	7,527
Excess tax benefit on exercise of equity awards	809	757
Repurchase of common stock		(39,617)
Net cash provided by (used in) financing activities of continuing operations	13,476	(41,654)
Cash provided by (used in) continuing operations	25,770	(29,772)

Cash flows from discontinued operations:		
Cash (used in) provided by operating activities of discontinued operations	(3,095)	6,489
Cash used in investing activities of discontinued operations	(238)	(150)
Total cash (used in) provided by discontinued operations	(3,333)	6,339
Net increase (decrease) in cash and cash equivalents	22,437	(23,433)
Cash and cash equivalents, beginning of period	75,087	99,461
Cash and cash equivalents, end of period	$ 97,524	$ 76,028
Supplemental disclosure of non-cash transactions:		
Debt assumed through capital lease obligation		$ 9,000

See accompanying notes to unaudited condensed consolidated financial statements.

PERFORMANCE FOOD GROUP COMPANY AND SUBSIDIARIES
Notes to Unaudited Condensed Consolidated Financial Statements

1. *Basis of Presentation*

The accompanying condensed consolidated financial statements of Performance Food Group Company and subsidiaries (the Company) as of September 29, 2007 and for the three-month and nine-month periods ended September 29, 2007 and September 30, 2006 are unaudited. The unaudited December 30, 2006 condensed consolidated balance sheet was derived from the audited consolidated balance sheet included in the Company s latest Annual Report on Form 10-K. The unaudited condensed consolidated financial statements have been prepared in accordance with U.S. generally accepted accounting principles for interim financial reporting and Rule 10-01 of Regulation S-X.

In the opinion of management, the unaudited condensed consolidated financial statements contained in this report reflect all adjustments, consisting of only normal recurring accruals, which are necessary for a fair presentation of the financial position and the results of operations for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year. References in this Form 10-Q to the 2007 and 2006 quarters and periods refer to the fiscal three-month and nine-month periods ended September 29, 2007 and September 30, 2006, respectively. These unaudited condensed consolidated financial statements, note disclosures and other information should be read in conjunction with the consolidated financial statements and notes thereto included in the Company s latest Annual Report on Form 10-K.

2. *Summary of Significant Accounting Policies*

Use of Estimates

The preparation of the condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the Company s condensed consolidated financial statements and notes thereto. The most significant estimates used by management are related to the accounting for the allowance for doubtful accounts, reserve for inventories, goodwill and other intangible assets, reserves for claims under self-insurance programs, vendor rebates and other promotional incentives, bonus accruals, depreciation, amortization, share-based compensation and income taxes. Actual results could differ from the estimates.

Inventories

The Company s inventories consist of food and non-food products. The Company values inventories at the lower of cost or market using the first-in, first-out method. At September 29, 2007 and December 30, 2006, the Company s inventory balances of $343.5 million and $308.9 million, respectively, consisted primarily of finished goods. Costs in inventory include the purchase price of the product and freight charges to deliver the product to the Company s warehouses. The Company maintains reserves for slow-moving, excess and obsolete inventories. These reserves are based upon category, inventory age, specifically identified items and overall economic conditions.

Revenue Recognition

The Company recognizes sales when persuasive evidence of an arrangement exists, the price is fixed or determinable, the product has been delivered to the customer and there is reasonable assurance of collection of the sales proceeds. Sales returns are recorded as reductions of sales.

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Reclassifications

Certain prior period amounts have been reclassified to conform to the current period s presentation.

Recently Issued Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP, and requires enhanced disclosures about fair value measurements. This statement will apply when other accounting pronouncements require or permit fair value measurements; it does not require new fair value measurements. This statement is effective for financial statements issued for fiscal years beginning after November 15, 2007, and interim periods within those years. The Company will adopt this pronouncement in its first quarter of fiscal 2008; however, the Company does not anticipate it will have a material impact on its consolidated financial position and results of operations.

In February 2007, the FASB issued SFAS No. 159, *The Fair Value Option of Financial Assets and Financial Liabilities - Including an amendment of FASB Statement No. 115* (SFAS No. 159). SFAS No. 159 allows an entity the irrevocable option to elect fair value for the initial and subsequent measurement for certain financial assets and liabilities. Subsequent changes in fair value of these financial assets and liabilities would be recognized in earnings when they occur. SFAS No. 159 is effective for fiscal years beginning after November 15, 2007. The Company will adopt this pronouncement in the first quarter of fiscal 2008; however, the Company does not anticipate it will have a material impact on its consolidated financial position and results of operations.

3. *Discontinued Operations*

In 2005, the Company sold all of its stock in the subsidiaries that comprised its fresh-cut segment to Chiquita Brands International, Inc. (Chiquita); as such, all amounts pertaining to the Company s former fresh-cut segment are presented as discontinued operations. Accordingly, unless otherwise noted, all amounts presented in the accompanying condensed consolidated financial statements, including all note disclosures, contain only information related to the Company s continuing operations.

4. *Earnings Per Common Share*

Basic earnings per common share (EPS) is computed by dividing net income available to common shareholders by the weighted average number of common shares outstanding during the quarter. Diluted EPS is computed using the weighted average number of common shares and dilutive potential common shares outstanding during the quarter. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be purchased with proceeds under the treasury stock method.

A reconciliation of the basic and diluted EPS computations is as follows:

	2007 Quarter			2006 Quarter		
(In thousands, except per share amounts)	**Earnings**	**Shares**	**Per-Share Amount**	**Earnings**	**Shares**	**Per-Share Amount**
Basic EPS continuing operations	$16,081	34,843	$0.46	$12,175	34,369	$0.35
Dilutive effect of equity awards		387			255	
	$16,081	35,230	$0.46	$12,175	34,624	$0.35

Diluted EPS continuing operations

Options to purchase approximately 1.5 million shares that were outstanding at September 29, 2007 were excluded from the computation of diluted shares because of their anti-dilutive effect on EPS for the 2007 quarter. The exercise price of these options ranged from $30.00 to $41.15. Options to purchase approximately 2.1 million shares that were outstanding at September 30, 2006 were excluded from the

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computation of diluted shares because of their anti-dilutive effect on EPS for the 2006 quarter. The exercise prices of these options ranged from $27.30 to $41.15.

(In thousands, except per share amounts)	2007 Period Earnings	2007 Period Shares	2007 Period Per-Share Amount	2006 Period Earnings	2006 Period Shares	2006 Period Per-Share Amount
Basic EPS continuing operations	$36,035	34,707	$1.04	$30,017	34,322	$0.87
Dilutive effect of equity awards		443			458	
Diluted EPS continuing operations	$36,035	35,150	$1.03	$30,017	34,780	$0.86

5. *Stock Based Compensation*

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS No. 123(R), *Share-Based Payment* (SFAS 123(R)), using the modified-prospective transition method. Under this transition method, compensation cost recognized in fiscal 2007 and 2006 includes: 1) compensation cost for all share-based payments granted through December 31, 2005, but for which the requisite service period had not been completed as of December 31, 2005, based on the grant date fair value estimated in accordance with the original provisions of SFAS No. 123 and 2) compensation cost for all share-based payments granted subsequent to December 31, 2005, based on the grant date fair value estimated in accordance with the provisions of SFAS No. 123(R).

Stock Option and Incentive Plans

During the 2007 period, the Company granted approximately 225,000 stock appreciation rights under the Company s 2003 Equity Incentive Plan (the 2003 Plan). The stock appreciation rights have a capped maximum appreciation amount and are settled in the Company s common stock. The Company also awarded approximately 252,000 shares of restricted stock. All of the grants made in the 2007 period generally vest four years from the date of grant. Approximately $0.4 million and $0.3 million of stock compensation expense was recognized in the condensed consolidated statements of earnings in the 2007 and 2006 quarters, respectively, and $1.4 million and $0.9 million in the 2007 and 2006 periods, respectively, for stock options and stock appreciation rights and $1.1 million and $1.0 million in the 2007 and 2006 quarters, respectively, and $3.2 million and $2.0 million in the 2007 and 2006 periods, respectively, for restricted stock grants. The Company has not made any grants of other stock based awards under the 2003 Plan.

Employee Stock Purchase Plan

Purchases made on July 13, 2007 under the Company s Employee Stock Purchase Plan (the Stock Purchase Plan) totaled approximately 43,000 shares and the grant date fair value was estimated to be $4.98 per share. Purchases made on January 15, 2007 under the Stock Purchase Plan totaled approximately 56,000 shares and the grant date fair value was estimated to be $4.32 per share. The purchase price is equal to 85% of the market price on the last day of the purchase period. Stock compensation expense recognized in the condensed consolidated statements of earnings was nominal in both the 2007 and 2006 quarters, and $0.2 million and $0.7 million in the 2007 and 2006 periods, respectively, for the Stock Purchase Plan.

All Share-Based Compensation Plans

The total share-based compensation cost recognized in operating expenses in the condensed consolidated statements of earnings in the 2007 and 2006 quarters was $1.5 million and $1.3 million, respectively, and $4.8 million and $3.6 million in the 2007 and 2006 periods, respectively, which represents the expense associated with our stock options, stock appreciation rights, restricted stock and shares purchased under the Stock Purchase Plan. At September 29, 2007, there was approximately $5.5 million of total unrecognized compensation cost related to unvested stock options and stock appreciation rights and $11.3 million of total unrecognized compensation cost related to unvested shares of restricted stock, which will be recognized over the remaining vesting periods.

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6. ***FIN 48***

The Company adopted the Financial Accounting Standards Board s Interpretation No. 48, Accounting for Uncertainty in Income Taxes, an interpretation of FASB Statement No. 109 (FIN 48), effective at the beginning of fiscal 2007. As a result of the adoption of FIN 48, the Company recognized a charge of approximately $0.5 million to its beginning retained earnings balance. As of the date of adoption, the Company had unrecognized tax benefits of $6.9 million ($5.6 million net of federal tax benefit), of which $3.2 million ($2.3 million net of federal tax benefit) could affect the effective tax rate for continuing operations. As of September 29, 2007, the Company had unrecognized tax benefits of $5.5 million ($4.5 million net of federal tax benefit), of which $2.1 million ($1.4 million net of federal tax benefit), if recognized, could affect the effective tax rate for continuing operations.

It is the Company s continuing practice to recognize interest and penalties related to uncertain tax positions in income tax expense. Approximately $1.0 million and $0.8 million were accrued for interest related to uncertain tax positions at September 29, 2007 and December 30, 2006, respectively.

As of September 29, 2007 and December 30, 2006, substantially all federal, state and local and foreign income tax matters have been concluded for years through 2002. It is reasonably possible that a decrease of $1.8 million ($1.0 million net of federal tax benefit) in the balance of unrecognized tax benefits may occur within the next twelve months due to statutes of limitations expirations, filing of amended returns, and closing and/or settling of audits. Of this amount, up to $1.0 million ($0.7 million net of federal tax benefit) could affect the effective tax rate of continuing operations.

7. ***Receivables Facility***

In 2001, the Company entered into a receivables purchase facility (the Receivables Facility), under which PFG Receivables Corporation, a wholly owned, special-purpose subsidiary, sold an undivided interest in certain of the Company s trade receivables. PFG Receivables Corporation was formed for the sole purpose of buying receivables generated by certain of the Company s operating units and selling an undivided interest in those receivables to a financial institution. Under the Receivables Facility, certain of the Company s operating units sell a portion of their accounts receivable to PFG Receivables Corporation, which in turn, subject to certain conditions, may from time to time sell an undivided interest in these receivables to a financial institution. The Company s operating units continue to service the receivables on behalf of the financial institution at estimated market rates. Accordingly, the Company has not recognized a servicing asset or liability. During the 2007 second quarter, the Company extended the term of the Receivables Facility through June 23, 2008.

At September 29, 2007, securitized accounts receivable totaled $233.6 million, including $130.0 million sold to the financial institution and derecognized from the condensed consolidated balance sheet. Total securitized accounts receivable include the Company s residual interest in accounts receivable (Residual Interest) of $103.6 million. At December 30, 2006, securitized accounts receivable totaled $250.8 million, including $130.0 million sold to the financial institution and derecognized from the consolidated balance sheet, and including Residual Interest of $120.8 million. The Residual Interest represents the Company s retained interest in receivables held by PFG Receivables Corporation. The Residual Interest was measured using the estimated discounted cash flows of the underlying accounts receivable, based on estimated collections and a discount rate approximately equivalent to the Company s incremental borrowing rate. The loss on the sale of the undivided interest in receivables of $2.0 million and $1.9 million in the 2007 and 2006 quarters, respectively, and $5.7 million and $5.4 million in the 2007 and 2006 periods, respectively, is included in other expense, net, in the condensed consolidated statements of earnings and represents the Company s cost of securitizing those receivables with the financial institution. At September 29, 2007, the rate under the Receivables Facility was 6.3% per annum.

The key economic assumptions used to measure the Residual Interest at September 29, 2007 were a discount rate of 6.0% and an estimated life of approximately 1.5 months. At September 29, 2007, an immediate adverse change in the discount rate and estimated life of 10% and 20%, with other factors remaining constant, would reduce the fair value of the Residual Interest, with a corresponding increase in

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the loss on sale of receivables, but would not have a material impact on the Company s consolidated financial condition or results of operations.

8. *Goodwill and Other Intangible Assets*

The following table presents details of the Company s intangible assets as of September 29, 2007 and December 30, 2006:

	As of September 29, 2007			As of December 30, 2006		
(In thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**
Intangible assets with definite lives:						
Customer relationships	$ 31,746	$12,588	$ 19,158	$ 32,859	$12,100	$ 20,759
Trade names and trademarks	17,228	4,093	13,135	17,228	3,539	13,689
Deferred financing costs	3,570	2,577	993	3,570	2,332	1,238
Non-compete agreements	3,163	3,143	20	3,353	3,198	155
Total intangible assets with definite lives	$ 55,707	$22,401	$ 33,306	$ 57,010	$21,169	$ 35,841
Intangible assets with indefinite lives:						
Goodwill*	$368,535	$12,026	$356,509	$368,535	$12,026	$356,509
Trade names*	11,869	135	11,734	11,869	135	11,734
Total intangible assets with indefinite lives	$380,404	$12,161	$368,243	$380,404	$12,161	$368,243

* Amortization was recorded before the Company s adoption of SFAS No. 142, *Goodwill and Other Intangible Assets*.

The Company recorded amortization expense of $0.8 million and $0.9 million in the 2007 and 2006 quarters, respectively, and $2.5 million and $2.8 million in the 2007 and 2006 periods, respectively. These amounts included amortization of debt issuance costs of approximately $0.1 million in both the 2007 and 2006 quarters, and $0.2 million and $0.3 million in the 2007 and 2006 periods, respectively. The estimated future amortization expense on intangible assets as of September 29, 2007 is as follows:

(In thousands)	Amount
2007 (remaining quarter)	$ 804
2008	3,148
2009	3,146
2010	3,056
2011	2,791
2012	2,785
Thereafter	17,576
Total amortization expense	$33,306

9. ***Share Repurchase and Retirement***

During the 2006 period, the Company completed purchases under its $100 million repurchase program announced in August 2005, resulting in the repurchase of 1.5 million additional shares of its common stock at prices ranging from $25.93 to $29.61, for a total purchase price of $39.6 million, including transaction costs.

10. ***Commitments and Contingencies***

At September 29, 2007, the Company s Broadline and Customized segments had outstanding commitments for capital projects totaling $32.0 million and $3.2 million, respectively. Amounts due under these contracts

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were not included on the Company s condensed consolidated balance sheet as of September 29, 2007, in accordance with generally accepted accounting principles.

The Company has entered into numerous operating leases, including leases of buildings, equipment, tractors and trailers. In certain of the Company s leases of tractors, trailers and other vehicles and equipment, the Company has provided residual value guarantees to the lessors. Circumstances that would require the Company to perform under the guarantees include either (1) the Company s default on the leases with the leased assets being sold for less than the specified residual values in the lease agreements, or (2) the Company s decision not to purchase the assets at the end of the lease terms combined with the sale of the assets, with sale proceeds less than the residual value of the leased assets specified in the lease agreements. The Company s residual value guarantees under these operating lease agreements typically range between 4% and 20% of the value of the leased assets at inception of the lease. These leases have original terms ranging from two to eight years and expiration dates ranging from 2007 to 2014. As of September 29, 2007, the undiscounted maximum amount of potential future payments under the Company s guarantees totaled $7.5 million, which would be mitigated by the fair value of the leased assets at lease expiration. The assessment as to whether it is probable that the Company will be required to make payments under the terms of the guarantees is based upon the Company s actual and expected loss experience. Consistent with the requirements of FASB Interpretation No. 45, *Guarantor s Accounting and Disclosure Requirements for Guarantees of Indebtness of Others* (FIN 45), the Company has recorded $80,000 of the $7.5 million of potential future guarantee payments on its condensed consolidated balance sheet as of September 29, 2007.

11. ***Sale-leaseback Transaction***

During the 2007 period, the Company entered into a substitution of collateral and sale-leaseback transaction involving one of its Broadline operating facilities and one of its former fresh-cut segment operating facilities. This transaction resulted in the Company being released from a guarantee of future lease payments on one of its former fresh-cut segment facilities that was sold to Chiquita. The Company s Broadline operating facility was sold to a third party and leased back pursuant to a lease agreement with an initial term expiring in 2026. This transaction resulted in a gain of approximately $2.9 million. In accordance with SFAS No. 98, *Accounting for Leases: Sale-Leaseback Transactions involving Real Estate,* the gain will be amortized over the life of the lease as a reduction of lease expense.

12. ***Industry Segment Information***

The Company has two operating segments included in its continuing operations: broadline foodservice distribution (Broadline) and customized foodservice distribution (Customized). As previously discussed in Note 3, the Company s former fresh-cut segment is accounted for as a discontinued operation. Broadline markets and distributes more than 65,000 national and proprietary brand food and non-food products to a total of over 41,000 street and chain customers. Broadline consists of 19 distribution facilities that design their own product mix, distribution routes and delivery schedules to accommodate the needs of a large number of customers whose individual purchases vary in size. In addition, Broadline operates three locations that provide merchandising services to independent foodservice and non-foodservice distributors. Customized services casual and family dining chain restaurants. These customers generally prefer a distribution system that facilitates overall program management, menu and promotional roll-out changes, individualized customer service and tailored distribution routing. The Customized distribution network distributes nationwide and internationally from eight distribution facilities.

2007 Quarter (In thousands)	Broadline	Customized	Corporate and Intersegment	Total Continuing Operations
Net external sales	$966,211	$612,677	$	$ 1,578,888
Intersegment sales	299	52	(351)	
Total sales	*966,510*	*612,729*	*(351)*	*1,578,888*
Operating profit	23,041	8,403	(6,248)	25,196
Interest expense (income)	2,554	1,291	(4,297)	(452)
Loss (gain) on sale of receivables	2,883	740	(1,659)	1,964
Depreciation	4,789	1,749	65	6,603
Amortization	728			728
Capital expenditures	26,353	4,301	46	30,700

2006 Quarter (In thousands)	Broadline	Customized	Corporate and Intersegment	Total Continuing Operations
Net external sales	$864,516	$565,249	$	$ 1,429,765
Intersegment sales	129	47	(176)	
Total sales	*864,645*	*565,296*	*(176)*	*1,429,765*
Operating profit	18,558	7,125	(5,572)	