PERFORMANCE FOOD GROUP CO
Form 10-Q
May 12, 2005

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

FORM 10-Q

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

FOR THE QUARTERLY PERIOD ENDED APRIL 2, 2005

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 of organization)	(I.R.S. employer identification number)
12500 West Creek Parkway	23238
Richmond, Virginia	(Zip Code)
(Address of Principle Executive Offices)	

(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 and 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 No

Indicated by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act).

þ Yes No

As of May 9, 2005, 46,967,388 shares of the issuer s common stock were outstanding.

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Review 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 April 2, 2005, and the related condensed consolidated statements of earnings and cash flows for the three-month periods ended April 2, 2005 and April 3, 2004. 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 January 1, 2005, 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 March 15, 2005, 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 January 1, 2005 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
May 11, 2005

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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)	April 2, 2005	January 1, 2005
Assets		
Current assets:		
Cash and cash equivalents	$ 49,710	$ 52,322
Accounts receivable, net, including retained interest in securitized receivables	197,498	171,191
Inventories	287,097	287,019
Other current assets	22,929	25,463
Current assets of discontinued operations (Note 3)	669,061	109,924
Total current assets	1,226,295	645,919
Property, plant and equipment, net	214,247	201,248
Goodwill, net	354,037	354,038
Other intangible assets, net	53,405	54,471
Other assets	14,004	13,502
Non-current assets of discontinued operations (Note 3)		558,587
Total assets	$ 1,861,988	$ 1,827,765
Liabilities and Shareholders Equity		
Current liabilities:		
Outstanding checks in excess of deposits	$ 54,239	$ 103,948
Current installments of long-term debt	661	661
Trade accounts payable	287,791	227,882
Other current liabilities	128,104	112,580
Current liabilities of discontinued operations (Note 3)	203,298	116,024
Total current liabilities	674,093	561,095
Long-term debt, excluding current installments	255,719	263,859
Deferred income taxes	40,871	40,775
Long-term liabilities of discontinued operations (Note 3)		87,723
Total liabilities	970,683	953,452
Shareholders equity	891,305	874,313
Total liabilities and shareholders equity	$ 1,861,988	$ 1,827,765

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)

	Three Months Ended	
(In thousands, except per share amounts)	**April 2, 2005**	**April 3, 2004**
Net sales	$ 1,422,807	$ 1,224,537
Cost of goods sold	1,242,891	1,066,484
Gross profit	179,916	158,053
Operating expenses	170,490	152,341
Operating profit	9,426	5,712
Other income (expense), net:		
Interest expense	(973)	(1,982)
Loss on sale of receivables	(1,006)	(468)
Other, net	164	202
Other expense, net	(1,815)	(2,248)
Earnings from continuing operations before income taxes	7,611	3,464
Income tax expense from continuing operations	2,928	1,307
Earnings from continuing operations	4,683	2,157
Earnings from discontinued operations	9,012	5,319
Net earnings	$ 13,695	$ 7,476
Weighted average common shares outstanding:		
Basic	46,872	45,999
Diluted	47,403	47,067
Net earnings per common share:		
Basic earnings per common share - continuing operations	$ 0.10	$ 0.05
Basic earnings per common share - discontinued operations	0.19	0.11
	$ 0.29	$ 0.16
Diluted earnings per common share - continuing operations	$ 0.10	$ 0.05
Diluted earnings per common share - discontinued operations	0.19	0.11
	$ 0.29	$ 0.16

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)

	Three Months Ended	
(In thousands)	**April 2, 2005**	**April 3, 2004**
Cash flows from operating activities:		
Net earnings	$ 13,695	$ 7,476
Earnings from discontinued operations	(9,012)	(5,319)
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	5,522	5,175
Amortization	907	900
Tax benefit on exercise of stock options	223	774
Other	197	356
Change in operating assets and liabilities, net	52,431	7,138
Net cash provided by operating activities from continuing operations	63,963	16,500
Cash flows from investing activities:		
Purchases of property, plant and equipment	(18,546)	(5,421)
Net cash paid for acquisitions	(1,255)	(300)
Proceeds from sale of property, plant and equipment	17	31
Net cash used in investing activities from continuing operations	(19,784)	(5,690)
Cash flows from financing activities:		
(Decrease) increase in outstanding checks in excess of deposits	(49,709)	26,731
Net payments on revolving credit facility	(7,950)	(43,229)
Principal payments on long-term debt	(190)	(176)
Cash paid for debt issuance costs	(28)	(15)
Employee stock option, incentive and purchase plans	3,073	4,243
Net cash used in financing activities from continuing operations	(54,804)	(12,446)
Cash provided by discontinued operations	8,013	14,234
Net (decrease) increase in cash and cash equivalents	(2,612)	12,598
Cash and cash equivalents, beginning of period	52,322	38,916
Cash and cash equivalents, end of period	$ 49,710	$ 51,514

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 April 2, 2005 and for the three months ended April 2, 2005 and April 3, 2004 are unaudited. The unaudited January 1, 2005 condensed consolidated balance sheet was derived from the audited consolidated balance sheet included in the Company s latest Annual Report of Form 10-K. The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting, and in accordance with 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 2005 and 2004 quarters refer to the fiscal quarters ended April 2, 2005 and April 3, 2004, 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.

On February 22, 2005, the Company signed a definitive agreement to sell the companies comprising its Fresh-cut segment. As of that date, the Company met the criteria required to account for the Fresh-cut segment as a discontinued operation. As such, unless otherwise noted, all amounts presented, including all note disclosures, contain only information related to the Company s continuing operations. See Note 3 for additional discontinued operations disclosures.

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, sales incentives, vendor rebates and other promotional incentives, bonus accruals, depreciation, amortization and income taxes. Actual results could differ from the estimates.

Inventories

The Company s inventories consist of food and non-food products. The Company primarily values inventories at the lower of cost or market using principally the first-in, first-out (FIFO) method. At April 2, 2005 and January 1, 2005, the Company s inventory balances of $287.1 million and $287.0 million, respectively, consisted primarily of finished goods.

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 or collection of the sales proceeds. Sales returns are recorded as reductions of sales.

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Stock-Based Compensation

At April 2, 2005, the Company had stock-based employee compensation plans, which are accounted for under the recognition and measurement principles of Accounting Principles Board (APB) Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations. Accordingly, no stock-option related compensation cost has been reflected in net earnings in the condensed consolidated statements of earnings for the 2005 and 2004 quarters, except when there was a modification to a fixed award. The following table illustrates the effect on net earnings and net earnings per common share if the Company had applied the fair value recognition provisions of Statement of Financial Accounting Standards (SFAS) No. 123, *Accounting for Stock-Based Compensation*, to stock-based employee compensation. The fair value of each option was estimated at the grant date using the Black-Scholes option-pricing model.

(In thousands)	2005 Quarter	2004 Quarter
Net earnings, as reported	$ 13,695	$ 7,476
Add: Stock-based compensation included in current period net earnings, net of related tax effects		228
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects (includes approximately $7.3 million in the 2005 quarter related to the accelerated vesting of certain awards)	(8,437)	
Pro forma net earnings	$ 5,258	$ 5,894
Net earnings per common share:		
Basic as reported	$ 0.29	$ 0.16
Basic pro forma	$ 0.11	$ 0.13
Diluted as reported	$ 0.29	$ 0.16
Diluted pro forma	$ 0.11	$ 0.13

Reclassifications

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

Recently Issued Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R). SFAS No. 123R supersedes APB Opinion No. 25 and its related implementation guidance. SFAS No. 123R establishes standards for the accounting for transactions in which an entity issues equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity s equity instruments or that may be settled by the issuance of those equity instruments. SFAS No. 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. SFAS No. 123R establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee share ownership plans. The Company will adopt the modified prospective application provisions of SFAS No. 123R in its first fiscal quarter of 2006. Based on the underlying variables in the calculation, the Company has not determined the final impact, however, the Company anticipates the adoption of this standard will have a material impact on its results of operations.

During the 2005 quarter, the Company (acting through the Compensation Committee of the Board of Directors) accelerated the vesting of certain unvested options to purchase approximately 1.8 million shares of its common stock held by certain employees and officers under its 1993 Employee Stock Incentive Plan and 2003 Equity Incentive Plan which had exercise prices greater than the closing price of its common stock on February 22, 2005. These options became exercisable immediately as a result of the vesting acceleration and, as a result, the Company will not be required to recognize any compensation expense associated with these option grants in future years.

3. *Discontinued Operations*

On February 22, 2005, the Company signed a definitive agreement to sell all of the stock it owns in the companies comprising its Fresh-cut segment to Chiquita Brands International, Inc. for a purchase price of $855.0 million. The Company anticipates the sale will occur during its second quarter of 2005. As of the date of that agreement, the Company met all the requirements of SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets,* for accounting for the Fresh-cut segment as a discontinued operation. As such, the Fresh-cut segment discontinued depreciation and amortization of long-lived assets, in accordance with generally accepted accounting principles. In accordance with EITF No. 87-24, *Allocation of Interest to Discontinued Operations* , the Company allocated certain interest expense on debt that is required to be repaid as a result of the sale and a portion of interest expense associated with the Company s revolving credit facility and subordinated convertible notes. The allocation percentage was calculated based on the ratio of net assets of the discontinued operation to consolidated net assets. Interest expense allocated to discontinued operations totaled $1.9 million and $2.7 million for the 2005 and 2004 quarters, respectively. The assets and liabilities of the discontinued Fresh-cut segment reflected on the consolidated balance sheets at April 2, 2005 and January 1, 2005 were comprised of the following:

(In thousands)	**April 2, 2005**	**January 1, 2005**
Assets		
Accounts receivable	$ 81,035	$ 74,563
Inventories	21,220	27,816
Other current assets	7,877	7,545
Total current assets	110,132	109,924
Property, plant and equipment, net	193,914	193,453
Goodwill, net	232,473	232,473
Other intangible assets, net	129,769	130,399
Other assets	2,773	2,262
Total non-current assets	558,929	558,587
Total assets	$ 669,061	$ 668,511
Liabilities		
Outstanding checks in excess of deposits	$ 19,760	$ 24,131
Current installments of long-term debt	275	275
Trade accounts payable	40,003	39,775
Other current liabilities	55,476	51,843
Total current liabilities	115,514	116,024
Long-term Debt	14,725	14,725
Deferred income taxes	73,059	72,998

Total non-current liabilities	87,784	87,723
Total liabilities	$ 203,298	$ 203,747

The net sales and earnings before income taxes of the Company s discontinued operation were as follows:

	Three Months Ended	
(In thousands)	**April 2, 2005**	**April 3, 2004**
Net sales	$ 244,308	$ 240,530
Earnings before income taxes	$ 14,608	$ 8,594

4. *Business Combinations*

During the 2005 quarter, the Company paid approximately $1.3 million related to the settlement of an earnout agreement with the former owners of Middendorf Meat Company (Middendorf Meat). This amount was accrued, with a corresponding increase to goodwill, in the Company s 2004 fourth quarter. During the 2004

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quarter, the Company paid $300,000 related to certain contractual obligations in the purchase agreement in connection with a 2001 acquisition.

5. *Earnings Per Common Share*

Basic earnings per common share (EPS) is computed by dividing earnings from continuing operations available to common shareholders (numerator) by the weighted averaged number of common shares outstanding during the period. Diluted EPS is computed using the weighted average number of common shares and dilutive potential common shares outstanding during the period. In computing diluted EPS, the average stock price for the period is used in determining the number of shares assumed to be repurchased upon the exercise of stock options.

During the 2004 quarter, the Company had convertible subordinated notes (the Convertible Notes) outstanding. The calculation of diluted EPS is done on an if-converted basis and without conversion of the Convertible Notes. If the calculation of diluted EPS is more dilutive assuming conversion of the Convertible Notes, the after-tax interest on the Convertible Notes is added to net income and the shares into which the Convertible Notes are convertible are added to the dilutive shares. The Convertible Notes were redeemed during the Company s fourth quarter of 2004, as such, they are not applicable to the EPS calculation in the 2005 quarter. In the 2004 quarter, the Convertible Notes were not included in the computation of diluted EPS because they were anti-dilutive. A reconciliation of the numerators and denominators of the basic and diluted EPS computations is as follows:

	2005 Quarter			**2004 Quarter**		
(In thousands, except per share amounts)	**Earnings**	**Shares**	**Per-Share Amount**	**Earnings**	**Shares**	**Per-Share Amount**
Basic EPS continuing operations	$ 4,683	46,872	$ 0.10	$ 2,157	45,999	$ 0.05
Dilutive effect of stock options		531			1,068	
Diluted EPS continuing operations	$ 4,683	47,403	$ 0.10	$ 2,157	47,067	$ 0.05

Options to purchase approximately 2.7 million shares that were outstanding at April 2, 2005 were excluded from the computation of diluted shares because of their anti-dilutive effect on EPS for the 2005 quarter. The exercise price of these options ranged from $26.75 to $41.15. Options to purchase approximately 1.4 million shares that were outstanding at April 3, 2004 were excluded from the computation of diluted shares because of their anti-dilutive effect on EPS for the 2004 quarter. The exercise prices of these options ranged from $33.67 to $41.15.

6. *Receivables Facility*

In July 2001, the company entered into a receivables purchase facility (the Receivable 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. In June 2004, the Company extended the term of the Receivables Facility through June 27, 2005.

At April 2, 2005, securitized accounts receivable totaled $214.7 million, including $130.0 million sold to the financial institution and derecognized from the condensed consolidated balance sheet. Total securitized accounts receivable includes the Company s residual interest in accounts receivable (Residual Interest) of $84.7 million. At January 1, 2005, securitized accounts receivable totaled $225.6 million, including $130.0 million sold to the financial institution and derecognized from the consolidated balance sheet, and including Residual Interest of $95.6 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 sale of the undivided interest in receivables of $1.0 million and $468,000 in the 2005 and 2004 quarters, 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.

The Company records the sale of the undivided interest in accounts receivable to the financial institution in accordance with SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities.* Accordingly, at the time the undivided interest in receivables is sold, the receivables are removed from the Company s consolidated balance sheet. The Company records a loss on the sale of the undivided interest in these receivables, which includes a discount, based upon the receivables credit quality and a financing cost for the financial institution, based upon a 30-day commercial paper rate. At April 2, 2005, the rate under the Receivables Facility was 3.18% per annum.

The key economic assumptions used to measure the Residual Interest at April 2, 2005 were a discount rate of 3.05% and an estimated life of approximately 1.5 months. At April 2, 2005, 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 the loss on sale of receivables, but would not have a material impact on the Company s consolidated financial condition or results of operations.

7. *Goodwill and Other Intangible Assets*

The following table presents details of the Company s intangible assets as of April 2, 2005 and January 1, 2005:

	As of April 2, 2005			As of January 1, 2005		
(In thousands)	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**	**Gross Carrying Amount**	**Accumulated Amortization**	**Net**
Intangible assets with definite lives:						
Customer relationships	$ 32,859	$ 8,187	$ 24,672	$ 32,859	$ 7,625	$ 25,234
Trade names and trademarks	17,228	2,243	14,985	17,228	2,058	15,170
Deferred financing costs	2,828	1,577	1,251	2,801	1,390	1,411
Non-compete agreements	3,203	2,440	763	3,203	2,281	922
Total intangible assets with definite lives	$ 56,118	$ 14,447	$ 41,671	$ 56,091	$ 13,354	$ 42,737
Intangible assets with indefinite lives:						
Goodwill*	$ 366,063	$ 12,026	$ 354,037	$ 366,064	$ 12,026	$ 354,038
Trade names	11,869	135	11,734	11,869	135	11,734

Total intangible assets with indefinite lives	$ 377,932	$ 12,161	$ 365,771	$ 377,933	$ 12,161	$ 365,772

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*Amortization was recorded before the Company s adoption of SFAS No. 142, *Goodwill and Other Intangible Assets*. The Company recorded amortization expense of $1.1 million and $1.3 million in the 2005 and 2004 quarters, respectively. These amounts included amortization of debt issuance costs of approximately $187,000 and $372,000 in the 2005 and 2004 quarters, respectively. The estimated future amortization expense on intangible assets as of April 2, 2005 is as follows:

(In thousands)	Amount
2005 (remaining quarters)	$ 2,997
2006	3,739
2007	3,328
2008	2,825
2009	2,819
2010	2,812
Thereafter	23,151
Total amortization expense	$ 41,671

8. *Commitments and Contingencies*

At April 2, 2005, the Company s Customized and Broadline segments had outstanding purchase orders for capital projects totaling $30.3 million and $24.0 million, respectively. Amounts due under these contracts were not included on the Company s condensed consolidated balance sheet as of April 2, 2005, 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 decisions not to purchase the assets at the end of the lease terms combined with the sale of the assets, with sales 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 one to nine years and expiration dates ranging from 2005 to 2012. As of April 2, 2005, the undiscounted maximum amount of potential future payments under the Company s guarantees totaled $6.5 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 FIN 45, the Company has recorded $55,000 of the $6.5 million of potential future guarantee payments on its condensed consolidated balance sheet as of April 2, 2005.

In connection with certain acquisitions, the Company has entered into earnout agreements with certain of the former owners of the businesses that the Company has acquired. These agreements are based upon certain sales, operating profit, net earnings and affiliate distributor targets, as defined in each agreement. These earnout payments are for companies acquired from 2000 to 2002, and may include payments in cash and/or shares of the Company s common stock. As of April 2, 2005, the maximum potential earnout obligation, assuming all future earnout targets are met in their earliest possible years, totaled $11.0 million, all of which can be potentially earned in 2005. These contingent payments are not recorded on the Company s condensed consolidated balance sheet at April 2, 2005, in accordance with generally accepted accounting principles. If paid, these earnout payments would increase the goodwill of the companies acquired. If the future earnout targets are not met, these maximum amounts will be lower, or the Company may not be required to make payments.

9. *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 Fresh-cut segment is accounted for as a discontinued operation. Broadline markets and distributes more than 61,000 national proprietary brand food and non-food products to a total of over 43,000 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 distributors. Customized services casual and family dining chain restaurants. These customers generally prefer a centralized point of contact that facilitates item and menu changes, tailored distribution routing and customer service. The Customized distribution network distributes nationwide and internationally from eight distribution facilities.

2005 Quarter (In thousands)	**Broadline**	**Customized**	**Corporate and Intersegment**	**Total Continuing Operations**
Net external sales	$ 860,044	$ 562,763	$	$ 1,422,807
Intersegment sales	225	62	(287)	
Total sales	*860,269*	*562,825*	*(287)*	*1,422,807*
Operating profit	12,654	5,766	(8,994)	9,426
Interest expense (income)	3,899	267	(3,193)	973
Loss (gain) on sale of receivables	2,776	743	(2,513)	1,006
Depreciation	3,339	1,164	1,019	5,522
Amortization	907			907
Capital expenditures	3,309	13,198	2,039	18,546

2004 Quarter (In thousands)	**Broadline**	**Customized**	**Corporate and Intersegment**	**Total Continuing Operations**
Net external sales	$ 723,651	$ 500,886	$	$ 1,224,537
Intersegment sales	267	77	(344)	
Total sales	*723,918*	*500,963*	*(344)*	*1,224,537*
Operating profit	10,318	3,470	(8,076)	5,712
Interest expense (income)	3,080	171	(1,269)	1,982
Loss (gain) on sale of receivables	1,950	650	(2,132)	468
Depreciation	3,365	1,071	739	5,175
Amortization	900			