

PERFORMANCE FOOD GROUP CO

Form 10-K

February 27, 2007

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**UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549**

FORM 10-K

(Mark One)

**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

**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 No.)

12500 West Creek Parkway
Richmond, Virginia

23238

(Address of Principal
Executive Offices)

(Zip Code)

Registrant's telephone number, including area code:
(804) 484-7700

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

Title of each class

Name of each exchange on which registered

Common Stock, \$0.01 par value per share
Rights to Purchase Preferred Stock

Nasdaq Global Select Market
Nasdaq Global Select Market

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 No

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

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 No

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 the registrant's knowledge, in definitive proxy or information

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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. (Check one):

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 Act). Yes No

The aggregate market value of the voting stock held by non-affiliates of the registrant on June 30, 2006 was \$1,032,912,921. The market value calculation was determined using the closing sale price of the registrant's common stock on June 30, 2006 as reported by the Nasdaq Stock Market.

Shares of common stock outstanding on February 21, 2007 were 34,995,932.

DOCUMENTS INCORPORATED BY REFERENCE

Part of Form 10-K Documents from which portions are incorporated by reference

Part III Portions of the registrant's Proxy Statement relating to the registrant's Annual Meeting of Shareholders to be held on May 15, 2007 are incorporated by reference into Items 10, 11, 12, 13 and 14.

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PERFORMANCE FOOD GROUP COMPANY

Unless this Form 10-K indicates otherwise or the content otherwise requires, the terms we, our or Performance Food Group as used in this Form 10-K refer to Performance Food Group Company and its subsidiaries. References in this Form 10-K to the years 2007, 2006, 2005, 2004, 2003 and 2002 refer to our fiscal years ending or ended December 29, 2007, December 30, 2006, December 31, 2005, January 1, 2005, January 3, 2004 and December 28, 2002, respectively, unless otherwise expressly stated or the context otherwise requires. We use a 52/53-week fiscal year ending on the Saturday closest to December 31. Consequently, we periodically have a 53-week fiscal year. Our 2003 fiscal year was a 53-week year. The following discussion and analysis should be read in conjunction with Selected Consolidated Financial Data and our consolidated financial statements and the related notes included elsewhere in this Form 10-K.

Forward-Looking Statements

This Form 10-K and the documents incorporated by reference herein contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements, which are based on assumptions and estimates and describe our future plans, strategies and expectations, are generally identifiable by the use of the words anticipate, will, believe, estimate, expect, in seek, should or similar expressions. These forward-looking statements may address, among other things, our anticipated earnings, capital expenditures, contributions to our net sales by acquired companies, sales momentum, customer and product sales mix, expected efficiencies in our business and our ability to realize expected synergies from acquisitions. These forward-looking statements are subject to risks, uncertainties and assumptions. Important factors that could cause actual results to differ materially from the forward-looking statements we make or incorporate by reference in this Form 10-K are described under Item 1A. Risk Factors . If one or more of these risks or uncertainties materialize, or if any underlying assumptions prove incorrect, our actual results, performance or achievements may vary materially from future results, performance or achievements expressed or implied by these forward-looking statements. All forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the cautionary statements in this section. We undertake no obligation to publicly update or revise any forward-looking statement to reflect future events or developments.

PART I

Item 1. Business.

The Company and its Business Strategy

Performance Food Group, a Tennessee corporation, was founded in 1987 through the combination of various foodservice businesses and has grown internally through increased sales to existing and new customers and through acquisitions of existing businesses. Further discussion of acquisitions is contained in Management's Discussion and Analysis of Financial Condition and Results of Operations Business Combinations. Performance Food Group is the nation's third largest Broadline foodservice distributor based on 2006 net sales. We market and distribute over 68,000 national and proprietary brand food and non-food products to over 41,000 customers. Our extensive product line and distribution system allow us to service both of the major customer types in the foodservice or food-away-from-home industry: street foodservice customers, which include independent restaurants, hotels, cafeterias, schools, healthcare facilities and other institutional customers, and multi-unit, or chain, customers, which include regional and national casual and family dining, quick-service restaurants and other institutional customers.

On June 28, 2005, we completed the sale of all our stock in the subsidiaries that formerly comprised our fresh-cut segment to Chiquita Brands International, Inc.; accordingly, all amounts pertaining to our former fresh-cut segment are accounted for as a discontinued operation. Prior year amounts have been reclassified to conform with current year presentation for continuing operations. All amounts included within this Form 10-K, unless otherwise noted, refer only to our continuing operations.

We service our customers through two operating segments. Note 19 to the consolidated financial statements in this Form 10-K presents financial information for these segments.

Broadline

Our Broadline distribution segment markets and distributes more than 65,000 national and proprietary brand food and non-food products to more than 41,000 customers, including street customers, such as independent restaurants, and

certain corporate-owned and franchisee locations of chains such as Burger King, Church's, Compass, Popeye's, Subway and Zaxby's. In the Broadline distribution segment, we determine our product mix, distribution routes and

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delivery schedules to accommodate the needs of a large number of customers whose individual purchases vary in size. Broadline distribution customers are generally located within 250 miles from one of our 19 Broadline distribution facilities, which serve customers in the Eastern, Midwestern, Northeastern, Southern and Southeastern United States.

Customized

Our Customized distribution segment focuses on serving casual and family dining chain restaurants such as Cracker Barrel Old Country Store, Outback Steakhouse, Ruby Tuesday and T.G.I. Friday's. We believe that these customers generally prefer a centralized point of contact that facilitates item and menu changes, tailored distribution routing and customer service. We generally can service these customers more efficiently than our Broadline distribution customers because we warehouse only those stock keeping units, or SKUs, specific to our Customized customers, and we make larger, more consistent deliveries over a much broader geography. We have eight Customized distribution facilities located nationwide. Customized services 14 restaurant chains nationwide and three restaurant chains internationally.

Growth Strategies

Our business strategy is to grow our foodservice distribution businesses through both internal growth and acquisitions and to improve our operating profit margin through various key initiatives described below. We believe that we have the resources and competitive advantages to maintain our strong internal growth and that we are well positioned to take advantage of any future consolidation occurring in our industry.

Our key growth strategies are as follows:

Increase sales to street customers. Within our Broadline segment, we are focusing on increasing sales to street customers, such as independent restaurants, which typically utilize more of our proprietary brands and value-added services. Sales to these customers typically generate higher operating margins than sales to our chain customers. We are focusing on increasing our penetration of the street customer base by leveraging our broad range of products and value-added services and by continuing to invest in enhancing the quality of our sales force through improvements in our hiring and training efforts and in our utilization of technology. Our training program and sales compensation systems are designed to encourage our sales force to grow sales to new and existing street customers. We are also focused on hiring more outside sales representatives to service independent restaurants and remain vigilant in our hiring, training and retention practices. We have implemented a common assessment tool to evaluate prospective sales candidates and a training program staffed by regional sales associates and training managers at each location.

Improve category management. In an effort to enhance our category management, we have completed a transfer to a common item platform and have begun utilizing our data warehouse to analyze item and vendor movement, which will allow us to enhance coordination of our buying and marketing activities. In addition, we are continuing to invest in other technologies to provide our sales force with better information to assist our Broadline customers and to grow sales.

We are also focused on increasing sales of our proprietary brands and believe that our proprietary brands, which include AFFLAB, Bay Winds, Brilliance, Empire's Treasure, First Mark, Guest House, Heritage Ovens, PFG Custom Meats, Pocahontas, Raffinato, Ridgecrest Culinary, Silver Source, Village Garden and West Creek, offer customers greater value than national brands. We believe that as we continue to grow our scale of operations and sales of our proprietary brands, these sales can generate higher margins than comparable national brands. We seek to increase our sales of proprietary brands through our sales force training program and sales compensation systems.

Increase Broadline sales to existing customers and within existing markets. We seek to become a principal supplier for more of our Broadline distribution customers and to increase sales per delivery to those customers. To accomplish this, we focus on selling our customers' center-of-the-plate products. We believe that providing consistent, high-quality, center-of-the-plate items to our customers helps us gain a greater share of our customers' business. We believe that a higher penetration of our existing Broadline customers and markets will allow us to strengthen our relationships with these customers and to realize economies of scale driven by greater utilization of our existing distribution infrastructure.

We believe that we can increase our penetration of the Broadline customer base through focused sales efforts that leverage our distribution infrastructure, quality products and value-added services. Value-added services include assisting foodservice customers to control costs through, among other means, increased computer communications, more efficient deliveries and consolidation of suppliers. We believe that the typical Broadline customer in our markets

uses one or two principal suppliers for the majority of its foodservice needs but also relies upon a limited number of secondary broadline suppliers and specialty food suppliers. We believe those customers within our existing markets for which we are not the principal supplier represent an additional market opportunity for us.

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Grow our Customized segment with existing and selected new customers. We seek to strengthen our existing Customized distribution relationships by continuing to provide on-time delivery, complete orders, perishable food-handling expertise, clean, safe facilities and equipment, and electronic data transfers of restaurant orders, inventory information and invoices. A key initiative is expanding existing distribution centers and building additional centers to provide capacity for new customers and to reduce the miles driven to service existing customers. We seek to selectively add new customers within the Customized distribution segment. We believe potential customers include new or growing restaurant chains that have yet to establish a relationship with a customized foodservice distributor, as well as customers that are dissatisfied with their existing distributor relationships and large chains that have traditionally relied on in-house distribution networks.

Improve operating efficiencies through systems and technology. We seek to continually increase our operating efficiencies and competitive advantage by investing in training and technology-related initiatives to provide increased productivity and advanced customer services. These initiatives include our Foodstar® software, which handles order and procurement management throughout our Broadline distribution centers. Most of our Customized segment customers use our Internet-based ordering system, PFG-Connection, to place orders, make product inquiries and view purchase histories. Additionally, PFG-Connection provides customers with a Web-based e-catalog for viewing pictures of table-top items, smallwares and disposables. Our other initiatives include an automated warehouse management system that uses radio-frequency barcode scanning for inventory put-away and selection and computerized truck routing systems. In addition, we have an on-line ordering system that provides customers real-time access to order placement, product information, inventory levels and their purchasing histories. We have implemented standard productivity systems and measurement tools which allow us to improve our selection rates and accuracy while reducing our overall warehouse costs as a percentage of sales. We completed deployment of a GPS based computer system for our truck fleet that will improve productivity and improve our service levels. We also have implemented a centralized inbound logistics system that optimizes consolidated deliveries from our suppliers.

Actively pursue strategic acquisitions. Since our founding, we have supplemented our internal growth through selective, strategic acquisitions. We believe that the consolidation trends in the foodservice distribution industry will continue to present acquisition opportunities for us, and we intend to target acquisitions both in geographic markets that we already serve, which we refer to as fold-in acquisitions, as well as in new markets. We believe that fold-in acquisitions can allow us to increase the efficiency of our operations by leveraging our fixed costs and driving more sales through our existing facilities. Acquisitions in new markets expand our geographic reach into markets we do not currently serve and can allow us to leverage fixed costs.

Customers and Marketing

We have two closely related foodservice distribution business segments – Broadline and Customized. Our Broadline segment primarily services two types of customers – street customers and chain customers. Our Customized segment distributes to casual and family dining chain customers. We believe that a foodservice customer selects a distributor based on timely and accurate delivery of orders, consistent product quality, value-added services and price. In addition, we believe that some of our larger street and chain customers gain operational efficiencies by dealing with one, or a limited number of, foodservice distributors.

Street Customers

Our Broadline segment services our street customers, which include independent restaurants, hotels, cafeterias, schools, healthcare facilities and other institutional customers. We seek to increase our sales to street customers because, despite the generally higher selling and delivery costs that we incur in servicing these customers, street customers typically utilize more of our proprietary brands and value-added services. Sales to street customers are typically at higher price points than sales to chain customers due to the higher costs involved in those sales. As of December 30, 2006, our Broadline segment supported sales to street customers with over 1,050 sales and marketing representatives and product specialists. Our sales representatives service customers in person, by telephone and through the Internet, accepting and processing orders, reviewing account balances, disseminating new product information and providing business assistance and advice where appropriate. Sales representatives are generally compensated through a combination of salary and commission based on factors relating to tenure, profitability and collections. These representatives typically use laptop computers to assist customers by entering orders, checking

product availability and pricing and developing menu-planning ideas on a real-time basis.

Chain Customers

Both our Broadline and Customized segments service chain customers. Our principal chain customers are franchisees and corporate-owned units of casual and family dining and quick-service restaurants. Our Broadline segment customers include numerous locations of Burger King, Church's, Compass, KFC, Popeye's, Subway and Zaxby's quick-service restaurants. Our Customized segment customers include casual and family dining restaurant concepts,

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such as Carrabba's Italian Grill, Cracker Barrel, Logan's, Outback Steakhouse, Ruby Tuesday and T.G.I. Friday's. Our sales programs to chain customers are tailored to the individual customer and include a more specialized product offering than the sales programs to our street customers. Sales to chain customers are typically higher volume, lower gross margin sales, which require fewer, but larger deliveries than those to street customers. These programs offer operational and cost efficiencies for both the customer and us, which can help compensate for the lower gross margins. Dedicated account representatives are responsible for managing the overall chain customer relationship, including ensuring complete order fulfillment and customer satisfaction. Members of senior management assist in identifying potential new chain customers and managing long-term account relationships. Two of our chain customers, Outback Steakhouse, Inc. (OSI) and CRBL Group, Inc. (CRBL), account for a significant portion of our consolidated net sales. Net sales to OSI accounted for 13% of our consolidated net sales for both 2006 and 2005 and 14% of our consolidated net sales for 2004. Net sales to CRBL accounted for 11% of our consolidated net sales for each of 2006, 2005 and 2004. No other chain customer accounted for more than 8% of our consolidated net sales in 2006, 2005 or 2004.

Products and Services

We distribute more than 68,000 national and proprietary brand food and non-food products to over 41,000 customers. These products include a broad selection of center-of-the-plate entrées, canned and dry groceries, frozen foods, refrigerated and dairy products, paper products and cleaning supplies, produce, restaurant equipment and other supplies. We also provide our customers with value-added services in the normal course of providing full-service distributor services.

Proprietary brands

We offer our customers an extensive line of products under our proprietary brands, including AFFLAB, Bay Winds, Brilliance, Empire's Treasure, First Mark, Guest House, Heritage Ovens, PFG Custom Meats, Pocahontas, Raffinato, Ridgecrest Culinary, Silver Source, Village Garden and West Creek. The Pocahontas brand name has been recognized in the food industry for over 100 years. Products offered under our proprietary brands include canned and dry groceries, tabletop sauces, meat, baked goods, shortenings and oils, among others. In 2006, we introduced PFG-procured and branded fresh produce and we will continue to enhance our branded product offering based on customer preferences and data analysis using our data warehouse. Our proprietary brands enable us to offer customers an alternative to comparable national brands across a wide range of products and price points. For example, the Raffinato brand consists of a line of premium pastas, cheeses, tomato products, sauces and oils tailored for the Italian foods market, while our Empire's Treasure brand consists of high-quality frozen seafood. We seek to increase the sales of our proprietary brands, as they can provide higher margins than comparable national brand products. We also believe that sales of our proprietary brands can help to promote customer loyalty.

National brands

We offer our customers a broad selection of national brand products. We believe that these brands are attractive to chain, street and other customers seeking recognized national brands throughout their operations. We believe that distributing national brands has strengthened our relationships with many national suppliers who provide us with important sales and marketing support. These sales complement sales of our proprietary brand products.

Value-added services

As part of developing and strengthening our customer relationships, we provide some of our customers with value-added services including assistance in new product introductions, inventory management and improving efficiency. As described below, we also provide procurement and merchandising services to approximately 400 independent foodservice distributor facilities and approximately 500 independent paper and janitorial supply distributor facilities, as well as to our own distribution network. These procurement and merchandising services include negotiating vendor supply agreements and providing quality assurance services related to our proprietary and national brand products.

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The following table sets forth the percentage of our consolidated net sales by product and service category in 2006, 2005 and 2004:

| | Percentage of Net Sales ⁽¹⁾ | | |
|---|--|------|------|
| | 2006 | 2005 | 2004 |
| Center-of-the-plate | 41% | 42% | 42% |
| Canned and dry groceries | 18 | 18 | 18 |
| Frozen foods | 17 | 17 | 17 |
| Refrigerated and dairy products | 10 | 10 | 10 |
| Paper products and cleaning supplies | 7 | 7 | 7 |
| Produce | 4 | 3 | 4 |
| Procurement, merchandising and other services | 2 | 2 | 1 |
| Equipment and supplies | 1 | 1 | 1 |
| | | | |
| Total | 100% | 100% | 100% |

(1) 2004 amounts have been restated to remove discontinued operations to conform with the 2006 and 2005 presentation.

Information Systems

In our Broadline segment, 17 of our 19 distribution operations currently manage the ordering, receiving, procurement, warehousing and delivery of products through FoodStar[®], our supply-chain management software. FoodStar[®] enables us to manage our core supply chain processes including order-to-cash, procure-to-pay, and receiving-to-shipment. This software also contains financial modules that assist in the timely and accurate financial reporting by our subsidiaries to our corporate headquarters. Through implementation of standardized product and vendor identifiers, we have significantly improved our ability to manage our product categories and leverage our purchasing volume across our distribution network.

Sales & Margin Management. Our sales force is equipped with mobile, real-time, customer order-processing software that enables our sales representatives to maximize sales and customer service. In addition, we provide our customers with an internet-based ordering system that enables on-demand customer access to order placement, product information, inventory levels and purchasing histories twenty-four hours a day, seven days a week. We continue to enhance and upgrade these sales capabilities to address the ever-changing demands and needs of our customers. Along with this, we have implemented industry leading pricing software to improve business-to-business pricing, segmentation and analysis.

Warehouse Management. Our automated warehouse management system, one of our flagship systems, uses wireless radio-frequency barcode scanning for inventory put-away, selection and computerized truck routing systems. This technology has greatly enhanced productivity by reducing errors in inventory put-away and selection. To complement this, we completed the implementation of standard productivity systems and activity-based measurement tools, which enables us to track employee productivity and improve our selection rates and accuracy, while reducing our overall warehouse costs as a percentage of sales.

Logistics. All of our Broadline distribution locations now use a centralized enterprise truck-routing solution. For inbound freight we use a centralized inbound logistics system that optimizes consolidated deliveries from our suppliers. We completed deployment of a GPS-based on board computer system for our truck fleet that optimizes the distribution routes traveled by our trucks by reducing excess mileage, optimizes fuel consumption, providing point in time tracking of trucks, monitoring and managing service levels and improves the timeliness of customer deliveries. We are currently deploying fleet management solutions to improve overall fleet maintenance, efficiency and safety.

Business Intelligence. We continue to focus heavily on business intelligence through centralized data warehousing and reporting technologies. We are dedicated to deploying enterprise solutions which support operational excellence, enable consolidated access to critical data, provide visibility and management of enterprise key performance indicators and provide standardized metrics and measurements across the enterprise.

Additionally, we have taken extensive steps to ensure the availability of our systems for our Broadline customers, associates and suppliers. We maintain a separate datacenter in a suburb of Dallas, TX, that hosts our backup systems for our mission critical applications that are currently housed in our corporate location datacenter. We continually evaluate our systems-related disaster recovery needs and adjust our plans accordingly. Our wide area network is engineered to take maximum advantage of this high availability environment, allowing everyone to connect, based on role, regardless of location, without business interruption.

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In our Customized segment, we use a similar supply-chain management software platform managed and located at our Customized headquarters in Lebanon, Tennessee. This software has been tailored to manage large national accounts, multiple warehouses and centralized purchasing, payables and receivables. Our Customized segment uses a nationally recognized purchasing system for product procurement. This segment also has a warehouse management system that utilizes barcode technology to improve inventory receiving, put-away, replenishment and warehouse tracking. Our Customized segment also uses a truck-routing system that determines the most efficient method of delivery for our nationwide delivery system.

Most of our Customized segment customers use our internet-based ordering system, PFG-Connection, to place orders, make product inquiries and view purchase histories. A real-time, customer order-processing system allows our customers and customer service representatives to review and correct orders online. This software has allowed our customers to reduce costs through improved order accuracy.

In our Corporate segment, we use a financial systems suite that includes general ledger, accounts payable and fixed asset modules. In addition, we utilize software for financial consolidations. We are currently deploying enterprise document management and imaging capabilities to improve operational efficiencies, reduce document storage costs and increase overall service levels. In the human resources area, we use a common human resources suite, including human capital management, benefits and payroll modules in our Broadline, Customized and Corporate segments. We are focusing on providing performance management, associate learning management and training solutions that empower our associates and drive operational excellence. Additionally, we have built a high-availability, fully redundant application environment to support our most critical systems and to maintain continuous availability for our operations through application hardware, network, server and telecommunications configurations and fail-over technologies.

Suppliers and Purchasing

Our Broadline and Customized segments obtain products from large national and regional food manufacturers, consumer products companies, meat processors and produce shippers, as well as from local suppliers, food brokers and merchandisers. We seek to enhance our purchasing power through volume purchasing. Although each of our subsidiaries are generally responsible for placing its own orders and can select the products that appeal to its own customers, we encourage each subsidiary to participate in company-wide purchasing programs, which enable it to take advantage of our consolidated purchasing power. We were not dependent on a single source for any significant item and no third-party supplier represented more than 3% of our total product purchases during 2006.

Our wholly owned subsidiary known as Progressive Group Alliance (formerly Pocahontas Foods, USA) selects foodservice products for our Brilliance, Colonial Tradition, Healthy USA, Pocahontas, Premium Recipe and Raffinato brands and markets these brands, as well as nationally branded foodservice products, through our own distribution operations to approximately 400 independent foodservice distributor facilities nationwide. For our services, we receive marketing fees paid by suppliers. Approximately 3,200 of the products sold through Progressive Group Alliance are sold under our proprietary brands. Approximately 500 suppliers, located throughout the United States, supply products through the Progressive Group Alliance distribution network. Because Progressive Group Alliance negotiates purchase agreements on behalf of its independent distributors as a group, the distributors that utilize Progressive Group Alliance's procurement and merchandising group can enhance their purchasing power.

Operations

Our subsidiaries have certain autonomy in their operations, subject to overall corporate management controls and guidance. Our corporate management provides centralized direction in the areas of strategic planning, category management, operations management, sales management, general and financial management, human resources and information systems strategy and development. Although individual marketing efforts are undertaken at the subsidiary level, our name recognition in the foodservice business is based on both the trade names of our individual subsidiaries and the Performance Food Group name. Each subsidiary has primary responsibility for its own human resources, governmental compliance programs, accounting, billing and collections. Financial information reported by our subsidiaries is consolidated and reviewed by our corporate management.

Distribution operations are conducted from 19 Broadline and eight Customized distribution centers. Our Broadline distribution centers are located in Arkansas, Florida, Georgia, Illinois, Louisiana, Maine, Maryland, Massachusetts,

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Mississippi, Missouri, New Jersey, Tennessee, Texas and Virginia. Our Broadline customers are generally located no more than 250 miles from one of our Broadline distribution facilities. Our eight Customized distribution centers are located in California, Florida, Indiana, Maryland, New Jersey, South Carolina, Tennessee and Texas. Our Customized segment distributes to customer locations nationwide and internationally. For all of our distribution operations, customer orders are assembled in our distribution facilities and then sorted, placed on pallets, and loaded onto trucks and trailers in delivery sequence. Deliveries are generally made in large tractor-trailers that we usually lease. We use a computer system to design efficient route sequences for the delivery of our products.

The following table summarizes certain information for our principal operating locations:

| Name of Subsidiary/Division | Principal Region(s) | Location of Facilities | Approx. Number of Customer Locations Currently Served | Major Customers |
|------------------------------------|---|-------------------------------|--|---|
| <i>Broadline:</i> | | | | |
| AFFLINK | Nationwide | Tuscaloosa, AL | 500 | Independent paper distributors |
| PFG AFI Foodservice | New Jersey and New York City metropolitan area | Elizabeth, NJ | 3,800 | Restaurants, healthcare facilities and schools |
| PFG Batesville | Mississippi | Batesville, MS | 1,600 | Restaurants, healthcare facilities and schools |
| PFG Caro Foods | South | Houma, LA | 1,600 | Churches, Copeland's, Popeye's and other restaurants, healthcare facilities and schools |
| PFG Carroll County Foods | Baltimore, MD and Washington, DC area | New Windsor, MD | 2,100 | Restaurants, healthcare facilities and schools |
| PFG Empire Seafood | Florida | Miami, FL | 1,500 | Cruise lines and restaurants |
| PFG Florida | Florida | Tampa, FL | 1,600 | Restaurants, healthcare facilities and schools |
| PFG Hale | Kentucky, Tennessee and Virginia | Morristown, TN | 1,600 | Restaurants, healthcare facilities and schools |
| PFG Lester | South | Lebanon, TN | 2,400 | Restaurants, healthcare facilities and schools |
| PFG Little Rock | Arkansas, Missouri, Oklahoma, Tennessee and Texas | Little Rock, AR | 5,800 | Subway and other restaurants, healthcare facilities and schools |

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|----------------------------|-------------|--|---------------------------|-------|--|
| PFG | Magee | Louisiana and Mississippi | Magee, MS | 1,900 | Subway and other restaurants, healthcare facilities and schools |
| PFG | Middendorf | St. Louis, Missouri and surrounding areas | St. Louis, MO | 1,900 | Restaurants, clubs, hotels and other foodservice facilities |
| PFG | Milton s | South and Southeast | Atlanta, GA | 5,700 | Subway, Zaxby s and other restaurants, healthcare facilities and schools |
| PFG | NorthCenter | Maine, Massachusetts and New Hampshire | Augusta, ME | 4,300 | Restaurants, healthcare facilities and schools |
| PFG | Powell | Alabama, Florida and Georgia | Thomasville, GA | 800 | Restaurants, healthcare facilities and schools |
| Progressive Group Alliance | | Nationwide | Boise, ID Richmond, VA | 400 | Independent foodservice distributors and vendors |
| PFG | Springfield | New England and portions of New York State | Springfield, MA | 3,100 | Restaurants, healthcare facilities and schools |

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| Name of Subsidiary/Division | Principal Region(s) | Location of Facilities | Approx. Number of Customer Locations Currently Served | Major Customers |
|------------------------------------|---|--|--|--|
| PFG Temple | South and Southwest | Temple, TX | 4,100 | Church s, Popeye s, Subway and other restaurants, healthcare facilities and schools |
| PFG Thoms-Proestler Company | Chicago metropolitan area and other portions of Illinois, Indiana, Iowa and Wisconsin | Rock Island, IL | 3,300 | Restaurants, healthcare facilities and schools |
| PFG Victoria | South and Southwest | Victoria, TX | 2,300 | Subway and other restaurants, healthcare facilities and schools |
| PFG Virginia Foodservice | Virginia | Richmond, VA | 1,900 | Texas Steakhouse and other restaurants and healthcare facilities |
| <i>Customized</i> | Nationwide | Shafter, CA Elkton, MD Rock Hill, SC Gainesville, FL Kendallville, IN Lebanon, TN McKinney, TX Westampton, NJ | 3,500 | Cracker Barrel, Outback Steakhouse, Ruby Tuesday, T.G.I. Friday's, and other casual-dining restaurants |

Competition

The foodservice distribution industry is highly competitive. We compete with numerous smaller distributors on a local level, as well as with a limited number of national foodservice distributors. Certain of these distributors have greater financial and other resources than we do. Bidding for contracts or arrangements with customers, particularly chain and other large customers, is highly competitive and distributors may market their services to a particular customer over a long period of time before they are invited to bid. We believe that most purchasing decisions in the foodservice business are based on the distributor's ability to completely and accurately fill orders, provide timely deliveries and the quality and price of the product.

Regulation

Our operations are subject to regulation by state and local health departments, the U.S. Department of Agriculture and the Food and Drug Administration, which generally impose standards for product quality and sanitation and are responsible for the administration of recent bioterrorism legislation. Our seafood operations are also specifically regulated by federal and state laws, including those administered by the National Marine Fisheries Service, established for the preservation of certain species of marine life, including fish and shellfish. State and/or federal authorities generally inspect our facilities at least annually. In addition, we are subject to regulation by the Environmental

Protection Agency with respect to the disposal of wastewater and the handling of chemicals used in cleaning. The Federal Perishable Agricultural Commodities Act, which specifies standards for the sale, shipment, inspection and rejection of agricultural products, governs our relationships with our fresh food suppliers with respect to the grading and commercial acceptance of product shipments. We are also subject to regulation by state authorities for the accuracy of our weighing and measuring devices.

Some of our distribution facilities have underground and aboveground storage tanks for diesel fuel and other petroleum products that are subject to laws regulating such storage tanks. These laws have not had a material adverse effect on our results of operations or financial condition.

The Surface Transportation Board and the Federal Highway Administration regulate our trucking operations. In addition, interstate motor carrier operations are subject to safety requirements prescribed by the U.S. Department of Transportation and other relevant federal and state agencies. Such matters as weight and dimension of equipment are also subject to federal and state regulations. We believe that we are in substantial compliance with applicable regulatory requirements relating to our motor carrier operations. Failure to comply with the applicable motor carrier regulations could result in substantial fines or revocation of our operating permits.

Table of Contents**Intellectual Property**

Except for the Pocahontas® trade name, we do not own or have the right to use any patent, trademark, trade name, license, franchise or concession, the loss of which would have a material adverse effect on our results of operations or financial condition.

Employees

As of December 30, 2006, we had approximately 7,000 full-time employees, including approximately 3,000 in management, administration and marketing and sales, with the remainder in operations. As of December 30, 2006, union and collective bargaining units represented about 450 of our employees. We have entered into seven collective bargaining and similar agreements with respect to our unionized employees. Our agreements with our union employees expire at various times from July 2007 to July 2011.

Executive Officers

The following table sets forth certain information concerning our executive officers:

| Name | Age | Position |
|------------------------|-----|---|
| Robert C. Sledd | 54 | Chairman of the Board |
| Steven L. Spinner | 47 | President and Chief Executive Officer |
| John D. Austin | 45 | Senior Vice President and Chief Financial Officer |
| Thomas Hoffman | 67 | Senior Vice President, President and Chief Executive Officer - Customized Division |
| Joseph J. Paterak, Jr. | 55 | Senior Vice President of Strategy and Support Services |
| Charlotte L. Perkins | 48 | Chief Human Resources Officer |
| Joseph J. Traficanti | 55 | Senior Vice President, General Counsel, Chief Compliance Officer, Corporate Secretary |
| J. Keith Middleton | 40 | Senior Vice President and Controller |

Robert C. Sledd has served as Chairman of the Board of Directors since February 1995 and has served as a director of Performance Food Group since 1987. From March 2004 through September 2006, Mr. Sledd served as Chief Executive Officer of Performance Food Group. Mr. Sledd also served as Chief Executive Officer of Performance Food Group from 1987 to August 2001 and as President from 1987 to February 1995 and March 2004 through May 2005. Mr. Sledd served as a director of Taylor & Sledd Industries, Inc., a predecessor of Performance Food Group, from 1974 to 1987 and served as President and Chief Executive Officer of that company from 1984 to 1987. Mr. Sledd also serves as a director of SCP Pool Corporation, a supplier of swimming pool supplies and related products.

Steven L. Spinner has served as Chief Executive Officer since October 2006 and President since May 2005. Mr. Spinner served as Chief Operating Officer from May 2005 through September 2006, as Senior Vice President of Performance Food Group and Chief Executive Officer - Broadline Division from February 2002 to May 2005 and as Broadline Division President of Performance Food Group from August 2001 to February 2002. Mr. Spinner also served as Broadline Regional President of Performance Food Group from October 2000 to August 2001 and served as President of AFI Foodservice Distributors, Inc., a wholly owned subsidiary of Performance Food Group, from October 1997 to October 2000. From 1989 to October 1997, Mr. Spinner served as Vice President of AFI Foodservice.

John D. Austin has served as Senior Vice President and Chief Financial Officer since April 2003. Mr. Austin served as Secretary of Performance Food Group from March 2000 to April 2005. Prior to that, Mr. Austin served as Vice President - Finance from January 2001 to April 2003. Mr. Austin served as Corporate Treasurer from 1998 to January 2001. Mr. Austin served as Corporate Controller of Performance Food Group from 1995 to 1998. From 1991 to 1995, Mr. Austin was Assistant Controller for General Medical Corporation, a distributor of medical supplies. Prior to that, Mr. Austin was an accountant with Deloitte & Touche LLP. Mr. Austin is a certified public accountant.

Thomas Hoffman has served as Senior Vice President of Performance Food Group and Chief Executive Officer - Customized Division since February 1995. Mr. Hoffman served as President of Kenneth O. Lester Company, Inc., a

wholly owned subsidiary of Performance Food Group, from December 1989 until September 2002 and from March 2006 to present. Prior to joining Performance Food Group, Mr. Hoffman served in executive capacities at Booth Fisheries Corporation, a subsidiary of Sara Lee Corporation, as well as C.F.S. Continental, Miami and International Foodservice, Miami, two foodservice distributors.

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Joseph J. Paterak, Jr. has served as Senior Vice President of Strategy and Support Services since July 2005. Prior to that, Mr. Paterak served as Senior Vice President of Operations for Performance Food Group from August 2003 to July 2005 and as Broadline Division Regional President from January 1999 to August 2003. He also served as Vice President of Performance Food Group from October 1998 to January 1999. From 1993 to September 1998, Mr. Paterak served as Market President of Alliant Foodservice, Inc. in the Charlotte, NC and Pittsburgh, PA markets, and he held executive positions with both HF Behrhorst & Sons, Inc. and Kraft Foodservice from 1982 through 1993. *Charlotte L. Perkins* has served as Chief Human Resources Officer since July 2005 and as Vice President of Risk Management since October 2004. From 2000 through October 2004, Ms. Perkins was the Senior Vice President, Human Resources and Risk Management for C&S Wholesale Grocers, Inc. Prior to that, Ms. Perkins held senior management positions with Richfood Holdings, Inc. and Jerrico, Inc.

Joseph J. Traficanti has served as Senior Vice President and Corporate Secretary since April 2005 and as General Counsel and Chief Compliance Officer since November 2004. From 1996 through 2004, Mr. Traficanti was the Vice President and Associate General Counsel of Owens & Minor, Inc., a distributor of medical supplies. From 1993 through 1996, Mr. Traficanti was a trial lawyer with the law firm of McGuire Woods, LLP, after retiring from the United States Air Force.

J. Keith Middleton has served as Controller of Performance Food Group since June 2002 and Senior Vice President since June 2005. From March 2000 to May 2002, Mr. Middleton was General Ledger Manager with Perdue Farms Incorporated. Mr. Middleton was employed as an accountant with Trice Geary & Myers LLC from July 1998 through February 2000. Prior to that, Mr. Middleton was an accountant at Arthur Andersen LLP from May 1988 to June 1998. Mr. Middleton is a certified public accountant.

Available Information

Our Internet address is: www.pfgc.com. Please note that our website address is provided as an inactive textual reference only. We make available free of charge through our website our Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K and amendments to those reports filed pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after such documents are electronically filed with the Securities and Exchange Commission. In addition, our earnings conference calls and presentations to securities analysts are web cast live via our website. Our Internet website and the information contained therein or connected thereto are not intended to be incorporated into this Form 10-K.

Item 1A. Risk Factors.

Foodservice distribution is a low-margin business and may be sensitive to economic conditions. We operate in the foodservice distribution industry, which is characterized by a high volume of sales with relatively low profit margins. Certain of our sales are at prices that are based on product cost plus a percentage markup. As a result, our results of operations may be negatively impacted when the price of food goes down, even though our percentage markup may remain constant. Certain of our sales are on a fixed fee-per-case basis. Therefore, in an inflationary environment, our gross profit margins may be negatively affected. In addition, our results of operations may be negatively impacted by product cost increases that we may not be able to pass on to our customers. The foodservice industry may also be sensitive to national and regional economic conditions, and the demand for our foodservice products has been adversely affected from time to time by economic downturns. In addition, our operating results are particularly sensitive to, and may be materially adversely impacted by, difficulties with the collectibility of accounts receivable, inventory control, price pressures, severe weather conditions and increases in wages or other labor costs, energy costs and fuel or other transportation-related costs. One or more of these events could adversely affect our future operating results. We have experienced losses due to the uncollectibility of accounts receivable in the past and could experience such losses in the future. In addition, although we have sought to limit the impact of the recent increases in fuel prices by imposing fuel surcharges on customers, increases in fuel prices may adversely affect our results of operations.

We rely on major customers. We derive a substantial portion of our net sales from customers within the restaurant industry, particularly certain chain customers. Net sales to OSI accounted for approximately 13% of our consolidated net sales for both 2006 and 2005 and 14% of our consolidated net sales in 2004. Net sales to CRBL accounted for 11% of our consolidated net sales in each of 2006, 2005 and 2004. Sales to these customers by our Customized segment generally have lower operating margins than sales to customers in other areas of our business. We have

agreements with certain of our customers to purchase specified amounts of goods from us and the prices paid by them may depend on the actual level of their purchases. Some of these agreements may be terminated by the customer with an agreed-upon notice to us; however, certain of these agreements may not be terminated by either party except for a material breach by the other party. We cannot always guarantee the level of future purchases by our customers. A material decrease in sales to any of our major customers

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or the loss of any of our major customers would have a material adverse impact on our operating results. In addition, to the extent we add new customers, whether following the loss of existing customers or otherwise, we may incur substantial start-up expenses in initiating services to new customers. Also, certain of our customers have from time to time experienced bankruptcy, insolvency, and/or an inability to pay debts to us as they come due, and similar events in the future could have a material adverse impact on our operating results.

Our growth is dependent on our ability to complete acquisitions and integrate operations of acquired businesses. A significant portion of our historical growth has been achieved through acquisitions of other businesses, and our growth strategy includes additional acquisitions. We may not be able to make acquisitions in the future and any acquisitions we do make may not be successful. Furthermore, future acquisitions may have a material adverse effect upon our operating results, particularly in periods immediately following the consummation of those transactions while the operations of the acquired businesses are being integrated into our operations.

Achieving the benefits of acquisitions depends on the timely, efficient and successful execution of a number of post-acquisition events, including integrating the business of the acquired company into our purchasing programs, distribution network, marketing programs and reporting and information systems. We may not be able to successfully integrate the acquired company's operations or personnel, or realize the anticipated benefits of the acquisition. Our ability to integrate acquisitions may be adversely affected by many factors, including the relatively large size of a business and the allocation of our limited management resources among various integration efforts.

In connection with the acquisitions of businesses in the future, we may decide to consolidate the operations of any acquired business with our existing operations or make other changes with respect to the acquired business, which could result in special charges or other expenses. Our results of operations also may be adversely affected by expenses we incur in making acquisitions, by amortization of acquisition-related intangible assets with definite lives and by additional depreciation attributable to acquired assets. Any of the businesses we acquire may also have liabilities or adverse operating issues, including some that we fail to discover before the acquisition, and our indemnity for such liabilities typically has been limited and may, with respect to future acquisitions, also be limited. Additionally, our ability to make any future acquisitions may depend upon obtaining additional financing. We may not be able to obtain additional financing on acceptable terms or at all. To the extent that we seek to acquire other businesses in exchange for our common stock, fluctuations in our stock price could have a material adverse effect on our ability to complete acquisitions.

Managing our growth may be difficult and our growth rate may decline. At times since our inception, we have rapidly expanded our operations. This growth has placed and will continue to place significant demands on our administrative, operational and financial resources, and we may not be able to successfully integrate the operations of acquired businesses with our existing operations, which could have a material adverse effect on our business. This growth may not continue. To the extent that our customer base and our services continue to grow, this growth is also expected to place a significant demand on our managerial, administrative, operational and financial resources. Our future performance and results of operations will depend in part on our ability to successfully implement enhancements to our business management systems and to adapt those systems as necessary to respond to changes in our business. Similarly, our growth has created a need for expansion of our facilities and processing capacity from time to time. As we near maximum utilization of a given facility or maximize our processing capacity, operations may be constrained and inefficiencies have been and may be created, which could adversely affect our operating results unless the facility is expanded, volume is shifted to another facility or additional processing capacity is added. Conversely, as we add additional facilities or expand existing operations or facilities, excess capacity may be created. Any excess capacity may also create inefficiencies and adversely affect our operating results.

Our debt agreements contain restrictive covenants, and our debt and lease obligations require, or may require, substantial future payments. At December 30, 2006, we had \$12.2 million of outstanding indebtedness, including a capital lease obligation of \$9.0 million which will require approximately \$28.3 million in future lease payments, including interest. In addition, at December 30, 2006, we were a party to operating leases requiring \$232.4 million in future minimum lease payments. Accordingly, the total amount of our obligations with respect to indebtedness and leases is substantial. In addition, we could currently borrow up to \$400 million under our Senior Revolving Credit Facility (Credit Facility), as needed, in connection with funding our future business needs, including capital

expenditures and acquisitions.

Our debt instruments contain financial covenants and other restrictions that limit our operating flexibility, limit our flexibility in planning for and reacting to changes in our business and make us more vulnerable to economic downturns and competitive pressures. Our indebtedness and lease obligations could have significant negative consequences, including:

- increasing our vulnerability to general adverse economic and industry conditions;

- limiting our ability to obtain additional financing;

- limiting our flexibility in planning for or reacting to changes in our business and the industry in which we compete; and

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placing us at a possible competitive disadvantage compared to competitors with less leverage or better access to capital resources.

In addition, any borrowings under our Credit Facility, are, and will continue to be, at variable rates based upon prevailing interest rates, which expose us to risk of increased interest rates. Our Credit Facility requires that we comply with various financial tests and imposes certain restrictions on us, including, among other things, restrictions on our ability to incur additional indebtedness, create liens on assets, make loans or investments and pay dividends. *Product liability claims could have an adverse effect on our business.* Like any other distributor and processor of food, we face an inherent risk of exposure to product liability claims if the products we sell cause injury or illness. We may be subject to liability, which could be substantial, because of actual or alleged contamination in products sold by us, including products sold by companies before we acquired them. We have, and the companies we have acquired have had, liability insurance with respect to product liability claims. This insurance may not continue to be available at a reasonable cost or at all, and may not be adequate to cover product liability claims against us or against companies we have acquired. We generally seek contractual indemnification from manufacturers, but any such indemnification is limited, as a practical matter, to the creditworthiness of the indemnifying party. If we or any of our acquired companies do not have adequate insurance or contractual indemnification available, product liability claims and costs associated with product recalls, including a loss of business, could have a material adverse effect on our business, operating results and financial condition.

Competition in our industry is intense, and we may not be able to compete successfully. The foodservice distribution industry is highly competitive. We compete with numerous smaller distributors on a local level, as well as with a limited number of national foodservice distributors. Some of these distributors have substantially greater financial and other resources than we do. Bidding for contracts or arrangements with customers, particularly chain and other large customers, is highly competitive and distributors may market their services to a particular customer over a long period of time before they are invited to bid. We believe that most purchasing decisions in the foodservice business are based on the distributor's ability to completely and accurately fill orders, provide timely deliveries and the quality and price of the product.

Our success depends on our senior management. Our success is largely dependent on the skills, experience and efforts of our senior management. The loss of one or more of our members of senior management could have a material adverse effect upon our business and development. We do not have any employment agreements with or maintain key man life insurance on any of these employees. Additionally, any failure to attract and retain qualified employees in the future could have a material adverse effect on our business.

The market price for our common stock may be volatile. In recent periods, there has been significant volatility in the market price of our common stock. In addition, the market price of our common stock could fluctuate substantially in the future in response to a number of factors, including the following:

our quarterly operating results or the operating results of other distributors of food and non-food products;

changes in general conditions in the economy, the financial markets or the food distribution or foodservice industries;

changes in financial estimates or recommendations by stock market analysts regarding us or our competitors;

announcements by us or our competitors of significant acquisitions;

increases in labor, energy, fuel costs or the costs of food products; and

natural disasters, severe weather conditions or other developments affecting us or our competitors.

In addition, in recent years the stock market has experienced extreme price and volume fluctuations. This volatility has had a significant effect on the market prices of securities issued by many companies for reasons unrelated to their operating performance. These broad market fluctuations may materially adversely affect our stock price, regardless of our operating results.

Item 1B. Unresolved Staff Comments.

None.

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Table of Contents**Item 2. Properties.**

The following table presents information about our primary real properties and facilities and our operating subsidiaries and divisions. Notes 9 and 12 to the consolidated financial statements included elsewhere in this Form 10-K contain information on the costs of these buildings.

| Location | Approx. Area In Square Feet | Operating Segment | Owned/Leased (Expiration Date if Leased) |
|--|--|--------------------------|---|
| AFFLINK Tuscaloosa, AL | 45,000 | Broadline | Leased (2016) |
| PFG AFI Foodservice Elizabeth, NJ | 267,000 | Broadline | Leased (2033) ⁽¹⁾ |
| PFG Batesville Batesville, MS | 183,000 | Broadline | Owned |
| PFG Caro Foods Houma, LA | 157,000 | Broadline | Owned |
| PFG Carroll County Foods New Windsor, MD | 98,000 | Broadline | Owned |
| PFG Customized Shafter, CA | 140,000 | Customized | Owned |
| Elkton, MD | 316,000 | Customized | Owned |
| Rock Hill, SC | 170,000 | Customized | Owned |
| Gainesville, FL | 256,000 | Customized | Owned |
| Kendallville, IN | 225,000 | Customized | Owned |
| Lebanon, TN | 287,000 | Customized | Owned |
| McKinney, TX | 194,000 | Customized | Owned |
| Westampton, NJ | 122,000 | Customized | Leased (2012) |
| PFG Empire Seafood Miami, FL | 154,000 | Broadline | Leased (2030) ⁽¹⁾ |
| PFG Florida Tampa, FL | 145,000 | Broadline | Owned |
| PFG Hale Morristown, TN | 100,000 | Broadline | Leased (2025) |
| PFG Lester Lebanon, TN | 160,000 | Broadline | Leased (2025) |
| PFG Little Rock Little Rock, AR | 269,000 | Broadline | Leased (2026) |

| | | | |
|--|---------|-----------|---------------|
| PFG Magee Magee, MS | 182,000 | Broadline | Leased (2024) |
| PFG Middendorf St. Louis, MO | 96,000 | Broadline | Owned |
| PFG Milton s Atlanta, GA | 260,000 | Broadline | Owned |
| PFG NorthCenter Augusta, ME | 145,000 | Broadline | Owned |
| PFG Powell Thomasville, GA | 75,000 | Broadline | Owned |
| Progressive Group Alliance Boise, ID | 8,000 | Broadline | Leased (2009) |
| Richmond, VA | 33,000 | Broadline | Leased (2024) |
| PFG Richmond Richmond, VA | 91,000 | Corporate | Leased (2025) |
| PFG Springfield Springfield, MA | 127,000 | Broadline | Owned |

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| Location | Approx. Area In Square Feet | Operating Segment | Owned/Leased (Expiration Date if Leased) |
|---|--|--------------------------|---|
| PFG Temple Temple, TX | 290,000 | Broadline | Leased (2025) |
| PFG Thoms-Proestler Company Rock Island, IL | 256,000 | Broadline | Owned ⁽²⁾ |
| PFG Victoria Victoria, TX | 250,000 | Broadline | Owned |
| PFG Virginia Foodservice Richmond, VA | 182,000 | Broadline | Leased (2024) |

(1) Includes all renewal options that we believe will be exercised.

(2) In January 2007, the PFG-Thoms Proestler Company facility was included as part of a sale-leaseback transaction. See Note 20 to our consolidated financial statements for additional information.

Item 3. Legal Proceedings.

In November 2003, certain of the former shareholders of PFG Empire Seafood, a wholly owned subsidiary which we acquired in 2001, brought a lawsuit against us in the Circuit Court, Eleventh Judicial Circuit in Dade County, seeking unspecified damages and alleging breach of their employment and earnout agreements. Additionally, they seek to have their non-compete agreements declared invalid. We intend to vigorously defend ourselves and have asserted counterclaims against the former shareholders. Management currently believes that this lawsuit will not have a material adverse effect on our financial condition or results of operations.

From time to time, we are involved in various legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation currently pending will not have a material adverse effect on our financial condition or results of operations.

Item 4. Submission of Matters to a Vote of Shareholders.

No matters were submitted to a vote of shareholders during the quarter ended December 30, 2006.

Table of Contents**PART II****Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities.**

Our common stock is quoted on the Nasdaq Stock Market's Global Select Market under the symbol PFGC and has been since July 3, 2006. Prior to that time it was quoted on the Nasdaq National Market under the same symbol. The following table sets forth, on a per share basis for the fiscal quarters indicated, the high and low sales prices for our common stock as reported on the Nasdaq Stock Market's Global Select Market and its predecessor, the Nasdaq National Market.

| | 2006 | |
|----------------|-------------|---------|
| | High | Low |
| First Quarter | \$32.49 | \$25.45 |
| Second Quarter | 33.45 | 29.24 |
| Third Quarter | 30.96 | 23.30 |
| Fourth Quarter | 29.75 | 26.26 |
| For the Year | \$33.45 | \$23.30 |
| | 2005 | |
| | High | Low |
| First Quarter | \$29.58 | \$23.79 |
| Second Quarter | 30.42 | 25.89 |
| Third Quarter | 32.00 | 28.18 |
| Fourth Quarter | 32.27 | 26.99 |
| For the Year | \$32.27 | \$23.79 |

As of February 21, 2007, we had approximately 13,000 shareholders of record, including shareholders in our employee stock ownership plans (see Notes 15 and 16 to our consolidated financial statements included elsewhere in this Form 10-K), and approximately 13,000 additional shareholders based on an estimate of individual participants represented by security position listings. We have not declared any cash dividends and the present policy of our Board of Directors is to retain all earnings to support operations and to finance our growth.

We did not repurchase any shares of our common stock during the quarter ended December 30, 2006.

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(Dollar and share amounts in thousands, except per share amounts)

| | 2006 | 2005 | 2004 ⁽²⁾ | 2003 ⁽²⁾⁽⁷⁾ | 2002 ⁽²⁾ |
|---|-------------|-------------|---------------------|------------------------|---------------------|
| STATEMENT OF EARNINGS DATA: | | | | | |
| Net sales | \$5,826,732 | \$5,721,372 | \$5,173,078 | \$4,602,792 | \$3,613,724 |
| Cost of goods sold | 5,052,097 | 4,973,966 | 4,496,117 | 3,982,182 | 3,123,403 |
| Gross profit | 774,635 | 747,406 | 676,961 | 620,610 | 490,321 |
| Operating expenses | 699,525 | 676,928 | 613,281 | 548,285 | 433,166 |
| Operating profit | 75,110 | 70,478 | 63,680 | 72,325 | 57,155 |
| Other income (expense): | | | | | |
| Interest income | 2,164 | 4,651 | 340 | 280 | 724 |
| Interest expense | (1,732) | (3,246) | (8,274) | (9,845) | (9,544) |
| Loss on sale of receivables | (7,351) | (5,156) | (2,421) | (1,765) | (1,832) |
| Loss on redemption of convertible notes | | | (10,127) | | |
| Other, net | 351 | 365 | 141 | 14 | 98 |
| Other expense, net | (6,568) | (3,386) | (20,341) | (11,316) | (10,554) |
| Earnings from continuing operations before income taxes | 68,542 | 67,092 | 43,339 | 61,009 | 46,601 |
| Income tax expense from continuing operations | 25,642 | 25,328 | 16,781 | 23,206 | 17,554 |
| Earnings from continuing operations, net of tax | 42,900 | 41,764 | 26,558 | 37,803 | 29,047 |
| Earnings from discontinued operations, net of tax | | 18,499 | 26,000 | 36,388 | 37,429 |
| (Loss) gain on sale of fresh-cut segment, net of tax | (114) | 186,875 | | | |
| Total (loss) earnings from discontinued operations | (114) | 205,374 | 26,000 | 36,388 | 37,429 |
| Net earnings | \$ 42,786 | \$ 247,138 | \$ 52,558 | \$ 74,191 | \$ 66,476 |
| PER SHARE DATA: | | | | | |
| Weighted average common shares outstanding: | | | | | |
| Basic | 34,348 | 43,233 | 46,398 | 45,583 | 44,445 |
| Diluted | 34,769 | 43,795 | 47,181 | 53,002 | 52,047 |
| Basic net earnings per common share: | | | | | |
| Continuing operations | \$ 1.25 | \$ 0.97 | \$ 0.57 | \$ 0.83 | \$ 0.66 |
| Discontinued operations | | 4.75 | 0.56 | 0.80 | 0.84 |
| Net earnings | \$ 1.25 | \$ 5.72 | \$ 1.13 | \$ 1.63 | \$ 1.50 |
| Diluted net earnings per common share: | | | | | |
| Continuing operations | \$ 1.23 | \$ 0.95 | \$ 0.56 | \$ 0.80 | \$ 0.65 |
| Discontinued operations | | 4.69 | 0.55 | 0.74 | 0.77 |

| | | | | | |
|-------------------------------------|----------|----------|----------|----------|----------|
| Net earnings | \$ 1.23 | \$ 5.64 | \$ 1.11 | \$ 1.54 | \$ 1.42 |
| Book value per share ⁽³⁾ | \$ 22.78 | \$ 21.82 | \$ 18.69 | \$ 17.53 | \$ 15.79 |
| Closing price per share | \$ 27.64 | \$ 28.37 | \$ 26.91 | \$ 35.75 | \$ 33.73 |

BALANCE SHEET AND OTHER DATA:

| | | | | | |
|---|------------|------------|-----------|------------|-----------|
| Working capital | \$ 140,745 | \$ 143,194 | \$ 84,824 | \$ 112,951 | \$ 81,082 |
| Property, plant and equipment, net | 291,947 | 255,816 | 201,248 | 182,842 | 146,276 |
| Depreciation and amortization | 28,869 | 26,380 | 24,996 | 23,706 | 21,146 |
| Capital expenditures | 53,688 | 77,576 | 40,635 | 56,973 | 20,785 |
| Total assets | 1,359,775 | 1,312,290 | 1,827,765 | 1,736,468 | 1,617,717 |
| Current debt (including current installments of long-term debt) | 583 | 573 | 661 | 875 | 1,513 |
| Long-term debt | 11,664 | 3,250 | 263,859 | 338,919 | 354,620 |
| Shareholders equity | 794,809 | 776,517 | 874,313 | 803,815 | 714,869 |
| Total capital | 807,056 | 780,340 | 1,138,833 | 1,143,609 | 1,071,002 |
| Debt-to-capital ratio ⁽⁴⁾ | 1.5% | 0.5% | 23.2% | 29.7% | 33.3% |
| Return on equity ⁽⁵⁾ | 5.6% | 4.7% | 3.2% | 5.0% | 4.4% |
| Price/earnings ratio ⁽⁶⁾ | 22.5 | 29.9 | 24.2 | 23.2 | 23.8 |

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- (1) Selected consolidated financial data includes the effect of acquisitions from the date of each acquisition. See Management's Discussion and Analysis of Financial Condition and Results of Operations Business Combinations and the notes to our consolidated financial statements included elsewhere in this Form 10-K and in our Form 10-K for the 2003 and 2002 fiscal years for additional information about these acquisitions.
- (2) 2004, 2003 and 2002 amounts have been restated to remove discontinued operations to conform with 2006 and 2005 presentation.
- (3) Book value per share is calculated by

dividing
shareholders
equity by the
number of
common shares
outstanding at
the end of the
fiscal year.

(4) The
debt-to-capital
ratio is
calculated by
dividing total
debt, including
capital lease
obligation, by
the sum of total
debt and
shareholders
equity.

(5) Return on
equity is
calculated by
dividing net
earnings of
continuing
operations by
average
shareholders
equity.

(6) The
price/earnings
ratio is
calculated by
dividing the
closing market
price of our
common stock
on the last
trading day of
the fiscal year
by diluted net
earnings from
continuing
operations per
common share
for 2006 and
2005 and by

diluted net earnings per share (including both continuing operations and discontinued operations) in 2004, 2003 and 2002.

(7) As discussed previously in this Form 10-K, 2003 was a 53 week fiscal year.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations.

The following discussion and analysis should be read in conjunction with Selected Consolidated Financial Data and our consolidated financial statements and the related notes included elsewhere in this Form 10-K. The following text contains references to years 2007, 2006, 2005 and 2004, which refer to our fiscal years ending or ended December 29, 2007, December 30, 2006, December 31, 2005 and January 1, 2005, respectively, unless otherwise expressly stated or the context otherwise requires. We use a 52/53-week fiscal year ending on the Saturday closest to December 31. Consequently, we periodically have a 53-week fiscal year.

Overview

We earn revenues primarily from the sale of food and non-food products to the foodservice, or food-away-from-home, industry. Our expenses consist mainly of cost of goods sold, which includes the amounts paid to manufacturers for products, and operating expenses, which include primarily labor-related expenses, delivery costs and occupancy expenses related to our facilities. For discussion of our business and strategies, see the Business section of this Form 10-K.

According to industry research, the restaurant industry captures nearly half of the total share of the consumer's food dollar and an industry research firm is projecting foodservice distributor sales to continue to grow in 2007. We believe the trends that are fueling the demand for food-away-from-home include the aging of the Baby Boomer population, rising incomes, more two-income households and consumer demand for convenience. According to industry research, older adults on average spend significantly more on food away from home than younger adults do. In addition, younger and higher-income consumers are increasingly starved for time and looking for ways to save time by shifting meal preparation to others by dining out, including utilizing restaurant take-out, or buying prepared or convenience foods.

Consumers are seeking healthful and higher quality menu choices. Several national casual dining restaurants, including certain of our customers, have expanded their fresh food menu offerings in an effort to meet the demands of consumers seeking healthful and higher quality menu alternatives. In addition, in an effort to reduce meal preparation time, consumers are seeking prepared or partially prepared food items from retail establishments.

The foodservice distribution industry is fragmented and consolidating. In the last decade, the ten largest broadline foodservice distributors have significantly increased their collective market share through both acquiring smaller foodservice distributors and internal growth. Over the past decade, we have supplemented our internal growth through selective, strategic acquisitions. We believe that the consolidation trends in the foodservice distribution industry will continue to present acquisition opportunities for us.

Our net sales in 2006 increased 1.8% over 2005, with all of our sales growth coming from existing operations. We estimate that food price inflation contributed approximately 1% to our growth in net sales in 2006. Sales trends reflect the result of our previously announced exit of certain multi-unit business in late 2005 and early 2006 in our Broadline segment and moderate industry growth.

Gross profit margin, which we define as gross profit as a percentage of net sales, increased to 13.3% in 2006, compared to 13.1% in 2005, primarily due to the shift in customer mix in our Broadline segment towards more street sales business, which typically carry a higher gross margin, and improvements related to our procurement initiatives. Our operating expense ratio, which we define as operating expenses as a percentage of net sales, increased to 12.0% in 2006, compared to 11.8% in 2005. Operating expenses were impacted by increased personnel costs in our Broadline segment due to our investment in street sales personnel, our continued investment in information technology in our Broadline segment, increased fuel costs in both segments and increased stock compensation costs in our corporate segment, partially offset by favorable trends in insurance costs.

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Going forward, we expect to continue our focus on executing our strategies, driving standardization of best practices and achieving operational excellence initiatives in each of our business segments. We continue to seek innovative means of servicing our customers to distinguish ourselves from others in the marketplace.

Sale of Fresh-cut Segment

In 2005, we completed the sale of all our stock in the subsidiaries that comprised our fresh-cut segment to Chiquita Brands International, Inc. for \$860.6 million and recorded a net gain of approximately \$186.8 million. In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, depreciation and amortization were discontinued beginning February 23, 2005, the day after we entered into a definitive agreement to sell our fresh-cut segment. As such, unless otherwise noted, all amounts described below and presented in the accompanying condensed consolidated financial statements, including all note disclosures, and in our Selected Consolidated Financial Data above contain only information related to our continuing operations. See Note 3 to our consolidated financial statements for additional disclosures regarding discontinued operations.

Results of Operations*Net sales*

| <i>(In thousands)</i> | 2006 | | 2005 | | 2004 | |
|-----------------------|--------------|------------|--------------|------------|--------------|------------|
| | Net Sales | % of total | Net Sales | % of total | Net Sales | % of total |
| Broadline | \$ 3,478,733 | 59.7% | \$ 3,481,446 | 60.8% | \$ 3,121,306 | 60.3% |
| Customized | 2,348,738 | 40.3% | 2,240,802 | 39.2% | 2,052,880 | 39.7% |
| Inter-segment* | (739) | | (876) | | (1,108) | |
| Total net sales | \$ 5,826,732 | 100.0% | \$ 5,721,372 | 100.0% | \$ 5,173,078 | 100.0% |

* *Inter-segment sales are sales between the segments, which are eliminated in consolidation.*

Consolidated. In 2006, net sales increased \$105.4 million, or 1.8%, to \$5.8 billion, compared to \$5.7 billion in 2005. In 2005, net sales increased \$548.3 million, or 10.6%, to \$5.7 billion, compared to \$5.2 billion in 2004. All of our net sales growth in 2006 and 2005 was from existing operations. We estimate that food price inflation contributed approximately 1% and 2% to net sales growth in 2006 and 2005, respectively. Each segment's sales are discussed in more detail in the following paragraphs.

Broadline. In 2006, Broadline net sales decreased \$2.7 million, or 0.1%, to \$3.5 billion. In 2005, Broadline net sales increased \$360.1 million, or 11.5%, to \$3.5 billion, compared to \$3.1 billion in 2004. We estimate that food price inflation of approximately 3% and 2% impacted Broadline net sales in 2006 and 2005, respectively.

In 2006, Broadline net sales declined due to decreased sales to certain of our multi-unit accounts, partially offset by growth in our street sales. During 2005, we exited approximately \$35 million of annualized multi-unit sales and began the exit of an additional \$115 million in annualized multi-unit sales, the majority of which was a result of our own initiative to rationalize business that did not meet our profit objectives. In 2005, Broadline experienced growth in its multi-unit business due to new multi-unit customers that were added during the second half of 2004. In 2005 and 2004, we continued our focus on increasing sales to independent restaurants and generated increased sales to existing

customers and markets. We refer to independent restaurants serviced by our sales representatives as street customers. Street customers tend to use more of our proprietary brands and value-added services, resulting in higher margin sales. We focus on sales of our proprietary brands, which typically generate higher margins than national brands. Sales of our proprietary brands represented 24% of street sales in both 2006 and 2005, compared to 25% in 2004. We also focus on increasing our sales of center-of-the-plate items, including beef, poultry, seafood and other proteins. We believe that selling more center-of-the-plate items positions us favorably with our customers. During 2005, the Gulf Coast and Southeast regions of the United States experienced two significant hurricanes. The negative impact on Broadline's net sales as a result of these hurricanes was approximately \$11 to \$12 million. The hurricanes also delayed the rollout of certain new multi-unit business until the fourth quarter.

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Broadline net sales represented 59.7%, 60.8% and 60.3% of our consolidated net sales in 2006, 2005 and 2004, respectively. The decrease as a percentage of our net sales in 2006 compared to 2005 was due to the exit of certain multi-unit business, as noted above, and the increase in Customized sales, as described below. The increase as a percentage of our consolidated net sales in 2005 compared to 2004 was due mainly to the growth in our multi-unit business, as noted above.

Customized. In 2006, Customized net sales increased \$107.9 million, or 4.8%, to \$2.3 billion, compared to \$2.2 billion in 2005. In 2005, Customized net sales increased \$187.9 million, or 9.2%, to \$2.2 billion, compared to \$2.1 billion in 2004. We estimate that our Customized segment experienced food product deflation of approximately 2% in 2006 and inflation of 1% in 2005.

Growth in sales to existing customers led to the increase in Customized net sales in both 2006 and 2005. During 2005, we completed the expansion of new capacity, including the opening of our facilities in California, Indiana and South Carolina and expansions to our Florida and Texas facilities. With this additional capacity we are now able to more efficiently serve customers by transferring existing business between facilities and reducing delivery miles. This new capacity also positions us favorably for potential new customers.

Customized net sales represented 40.3%, 39.2% and 39.7% of our consolidated net sales in 2006, 2005 and 2004, respectively. The increase as a percentage of our consolidated net sales in 2006 compared to 2005 was due to continued growth with existing customers and a change in mix of Broadline sales, as discussed above. The decrease as a percentage of our consolidated net sales in 2005 compared to 2004 was due to the increase in Broadline sales, as discussed above.

Cost of goods sold

In 2006, cost of goods sold increased \$78.1 million, or 1.6%, to \$5.1 billion, compared to \$5.0 billion in 2005. In 2005, cost of goods sold increased \$477.8 million, or 10.6%, to \$5.0 billion, compared to \$4.5 billion in 2004. Cost of goods sold as a percentage of net sales, or the cost of goods sold ratio, was 86.7% in 2006 and 86.9% in both 2005 and 2004. The decrease in the cost of goods sold ratio in 2006 compared to 2005 was due to the factors discussed below.

Broadline. Our Broadline segment's cost of goods sold ratio decreased in 2006 compared to 2005 due to a more favorable mix of growth in our higher margin street sales business, improvements made related to our procurement initiatives and increased fuel surcharges. Our Broadline segment's cost of goods sold ratio in 2005 increased compared to 2004 mainly due to the increase in our sales mix of multi-unit business, which typically carries a lower gross margin, partially offset by improvements related to procurement initiatives and increased fuel surcharges.

Customized. Our Customized segment's cost of goods sold ratio decreased in 2006 compared to 2005 due to food product deflation and increased fuel surcharges. Our Customized segment's cost of goods sold ratio decreased in 2005 from 2004 due mainly to increased fuel surcharges, partially offset by food product inflation in 2005.

Gross profit

In 2006, gross profit increased \$27.2 million, or 3.6%, to \$774.6 million, compared to \$747.4 million in 2005. In 2005, gross profit increased \$70.4 million, or 10.4%, to \$747.4 million, compared to \$677.0 million in 2004. Gross profit margin was 13.3% in 2006 and 13.1% in both 2005 and 2004.

Operating expenses

Consolidated. In 2006, operating expenses increased \$22.6 million, or 3.3%, to \$699.5 million, compared to \$676.9 million in 2005. In 2005, operating expenses increased \$63.6 million, or 10.4%, to \$676.9 million, compared to \$613.3 million in 2004. The operating expense ratio was 12.0%, 11.8% and 11.9% in 2006, 2005 and 2004, respectively. The increase in the operating expense ratio in 2006 compared to 2005 and the decline in the operating expense ratio in 2005 compared to 2004 are discussed below.

Broadline. Our Broadline segment's operating expense ratio increased in 2006 from 2005 due to the investment in new sales personnel related to our initiative to grow street sales, the costs associated with the planned exit of certain multi-unit business, our continued investment in information technology and increased fuel costs, partially offset by favorable trends in insurance. Our Broadline segment's operating expense ratio declined in 2005 from 2004 due to the increase in multi-unit sales, which carry lower operating expenses, and improved operational efficiencies, partially offset by higher fuel and insurance costs.

Customized. Our Customized segment's operating expense ratio increased in 2006 compared to 2005 primarily due to increased fuel costs, partially offset by favorable trends in insurance costs and the lapping of start-up costs in connection with

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the opening of our Indiana facility. Our Customized segment's operating expense ratio increased in 2005 compared to 2004 primarily due to increased fuel costs and start up and operating costs associated with the new California, Indiana and South Carolina distribution centers, partially offset by decreased delivery expenses, other than fuel, resulting from the opening of the new distribution centers and by the lapping of higher labor costs associated with the previously announced labor dispute in 2004. In the fourth quarter of 2003, certain drivers at the Elkton, Maryland facility went on strike. We incurred incremental costs in both 2004 and 2003 to engage replacement drivers to maintain the service level to our customers, to provide additional security at the facility and to pay our legal counsel. In the third quarter of 2004 we received a petition from a majority of our drivers in Elkton, Maryland, stating that they no longer wished to be represented by the union. Accordingly, we were legally obligated to withdraw recognition of the union. Incremental costs resulting from the Elkton labor dispute declined throughout 2004.

Corporate. Our Corporate segment's operating expenses increased in 2006 compared to 2005 primarily as a result of increased stock compensation expense, partially offset by the lapping of costs incurred in connection with our previously disclosed Audit Committee investigation in 2005. Our Corporate segment's operating expenses increased in 2005 compared to 2004 primarily because of increased personnel costs and legal expenses associated with our Audit Committee investigation in 2005, partially offset by decreased professional fees primarily associated with compliance with Section 404 of the Sarbanes-Oxley Act of 2002.

Operating profit

| <i>(In thousands)</i> | 2006 | | 2005 | | 2004 | |
|-----------------------------|------------------|------------|------------------|------------|------------------|------------|
| | Operating Profit | % of Sales | Operating Profit | % of Sales | Operating Profit | % of Sales |
| Broadline | \$ 71,619 | 2.1% | \$ 71,723 | 2.1% | \$ 65,877 | 2.1% |
| Customized | 30,736 | 1.3% | 24,981 | 1.1% | 21,538 | 1.0% |
| Corporate and inter-segment | (27,245) | | (26,226) | | (23,735) | |
| Total operating profit | \$ 75,110 | 1.3% | \$ 70,478 | 1.2% | \$ 63,680 | 1.2% |

Consolidated. In 2006, operating profit increased \$4.6 million, or 6.6%, to \$75.1 million, compared to \$70.5 million in 2005. In 2005, operating profit increased \$6.8 million, or 10.7%, to \$70.5 million, compared to \$63.7 million in 2004. Operating profit margin, defined as operating profit as a percentage of net sales, was 1.3% in 2006 and 1.2% in both 2005 and 2004.

Broadline. Our Broadline segment's operating profit margin was 2.1% in each of 2006, 2005 and 2004. Operating profit margin in 2006 was positively impacted by procurement initiatives, improved operating efficiencies and favorable trends in insurance costs, offset by our investment in new street sales personnel and the costs associated with the planned exit of certain multi-unit business. Operating profit margin in 2005 was positively impacted by operational efficiencies, offset by the increased mix of multi-unit business, which has a lower gross profit, and higher fuel and insurance costs.

Customized. Our Customized segment's operating profit margin was 1.3%, 1.1% and 1.0% in 2006, 2005 and 2004, respectively. Operating profit margin in 2006 was positively impacted by the ability to leverage our new capacity to more efficiently serve our existing customer base and favorable trends in insurance costs. Operating profit margin in 2005 was positively impacted by the decreased delivery costs resulting from the opening of the new distribution centers and the lapping of higher labor costs associated with the previously announced labor dispute, partially offset by higher fuel and insurance costs and incremental operating costs associated with the start up of new distribution centers.

Other expense, net

Other expense, net, was \$6.6 million in 2006, compared to \$3.4 million in 2005 and \$20.3 million in 2004. Included in other expense, net, was interest income of \$2.2 million, \$4.7 million and \$0.3 million in 2006, 2005 and 2004, respectively, and interest expense of \$1.7 million, \$3.2 million and \$8.3 million in 2006, 2005 and 2004, respectively. Interest expense was lower in 2006 compared to 2005 due to reduced borrowings under our revolving credit facility that were paid with a portion of the proceeds from the sale of our former fresh-cut segment, partially offset by increased interest rates. Interest expense was lower in 2005 compared to 2004 due to the replacement of our convertible notes with lower interest rate debt and the reduction of borrowings under our revolving credit facility, as noted above, partially offset by higher interest rates. Interest income was lower in 2006 compared to 2005 due to a decline in outstanding investments as the balance of the proceeds from the sale of the companies comprising our former fresh-cut segment were used to repurchase our common stock during the

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third and fourth quarters of 2005 and the first quarter of 2006. Interest income was higher in 2005 compared to 2004 due to the interest earned on the unused portion of the proceeds from the sale of our former fresh-cut segment. In October 2004, we redeemed our \$201.3 million aggregate principal amount of convertible notes. We used additional borrowings under our Credit Facility, as amended, to fund the redemption. (For further discussion of the Credit Facility, see *Financing Activities* below.) We paid the registered holders of the convertible notes a redemption price of 103.1429% of the principal amount of the convertible notes plus accrued interest. Other expense, net, in 2004 included a loss on the early redemption of the convertible notes of \$10.1 million, which consisted of the redemption premium and the write-off of unamortized debt issuance costs.

Other expense, net, also included a loss on the sale of the undivided interest in receivables of \$7.4 million, \$5.2 million and \$2.4 million in 2006, 2005 and 2004, respectively. These losses are related to our receivables purchase facility, referred to as the Receivables Facility, and represent the discount from carrying value that we incur from our sale of receivables to the financial institution. The Receivables Facility is discussed below in *Liquidity and Capital Resources*. The increase in the loss on sale of receivables in 2006 compared to 2005 was due to increased average interest rates and the increase in 2005 compared to 2004 was due to higher average levels of receivables sold under the Receivables Facility combined with increased average interest rates.

Income tax expense

Income tax expense from continuing operations was \$25.6 million in 2006, compared to \$25.3 million in 2005 and \$16.8 million in 2004. As a percentage of earnings before income taxes, the provision for income taxes was 37.4%, 37.8% and 38.7% in 2006, 2005 and 2004, respectively. The decline in our effective tax rate in 2006 from 2005 was primarily due to the increase in federal tax credits associated with the Gulf Opportunity Zone, Federal Communications Excise Tax and Worker Opportunity Tax Credit Programs. The decline in our effective tax rate in 2005 from 2004 was primarily due to state tax effects associated with the sale of our former fresh-cut segment, the benefit of tax exempt interest received on the proceeds from the sale of our former fresh-cut segment and adjustments to tax contingencies due to the closing of 2001 federal and state statute of limitations.

Earnings from continuing operations

In 2006, earnings from continuing operations increased \$1.1 million, or 2.7%, to \$42.9 million, compared to \$41.8 million in 2005. In 2005, earnings from continuing operations increased \$15.2 million, or 57.3%, to \$41.8 million, compared to \$26.6 million in 2004, which included the redemption of our convertible notes in the fourth quarter of 2004 that resulted in a \$10.1 million pre-tax charge to earnings. Net earnings from continuing operations as a percentage of net sales was 0.7% in both 2006 and 2005, and 0.5% in 2004.

Diluted net earnings per share

Diluted net earnings per common share from continuing operations, or diluted EPS, is computed by dividing earnings from continuing operations, net of tax, available to common shareholders plus dilutive after-tax interest on the convertible notes by the weighted-average number of common shares and dilutive potential common shares outstanding during the period. In 2006, diluted EPS increased 29.5% to \$1.23, compared to \$0.95 in 2005. In 2005, diluted EPS increased 69.6% to \$0.95, compared to \$0.56 in 2004, partially as a result of the redemption of our convertible notes in the fourth quarter of 2004, as discussed above. In 2004, the convertible notes were excluded from the calculation of diluted EPS because of their anti-dilutive effect on EPS.

Liquidity and Capital Resources

We have historically financed our operations and growth primarily with cash flows from operations, borrowings under our credit facilities, the issuance of long-term debt, operating leases, normal trade credit terms and the sale of our common stock. Despite our growth in net sales, we have reduced our working capital needs by financing our investment in inventory principally with accounts payable and outstanding checks in excess of deposits. We typically fund our acquisitions, and expect to fund future acquisitions, with our existing cash, additional borrowings under our Credit Facility and the issuance of debt or equity securities.

At December 30, 2006, cash and cash equivalents totaled \$75.1 million, a decrease of \$24.4 million from December 31, 2005. The decrease in cash was due to cash used in investing activities of \$53.2 million and cash used in financing activities of \$43.4 million, partially offset by cash provided by operating activities of \$65.7 million and cash provided by discontinued operations of \$6.6 million. Cash provided by discontinued operations included cash

provided by operating activities of \$6.7 million, partially offset by cash used in investing activities of \$0.1 million.
Cash provided by operating activities of

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discontinued operations was primarily due to the decrease in accounts receivable from discontinued operations. At December 31, 2005, cash and cash equivalents totaled \$99.5 million, an increase of \$47.1 million from January 1, 2005. The increase of cash was due to cash provided by operating activities of continuing operations of \$76.2 million and cash provided by discontinued operations of \$616.6 million, including net cash proceeds from the sale of our former fresh-cut segment, partially offset by cash used in investing activities of continuing operations of \$81.4 million and cash used in financing activities of continuing operations of \$564.2 million. Cash provided by discontinued operations included cash provided by operating activities of \$1.1 million, cash provided by investing activities of \$611.1 million and cash provided by financing activities of \$4.4 million.

Operating activities of continuing operations

During 2006, we generated cash from operating activities of \$65.7 million, compared to \$76.2 million in 2005 and \$47.6 million in 2004. Accounts receivable increased \$35.6 million in 2006, compared to an increase of \$19.3 million in 2005. The increase in accounts receivable in 2006 compared to 2005 was primarily due to higher average daily sales in December 2006 compared to December 2005. The increase in accounts receivable in 2005 compared to 2004 was due primarily to higher average daily sales in December 2005 compared to December 2004. In October 2004, we received an additional \$20.0 million of proceeds from the sales of incremental undivided interests in receivables under our Receivables Facility. These proceeds are reflected in the change in accounts receivable on our Consolidated Statements of Cash Flows. See *Off Balance Sheet Activities* below for further discussion of our Receivables Facility. Inventories increased by \$5.8 million in 2006, compared to an increase of \$16.1 million in 2005. Inventories increased in 2006 compared to 2005 and in 2005 compared to 2004 due to increased sales volume and incremental inventory for new and existing multi-unit customers. Trade accounts payable increased by \$10.8 million in 2006, compared to an increase of \$30.9 million in 2005. The increases in 2006 and 2005 were due mainly to higher inventory levels and the timing of payments made. Accrued expenses increased by \$10.6 million in 2006, compared to an increase of \$11.7 million in 2005. The increase in accrued expenses in 2006 compared to 2005 was due to an increase in deferred revenue due to the timing of marketing programs. The increase in 2005 compared to 2004 in accrued expenses was mainly due to increases in accrued rebates, accrued operating expenses and increased estimated self-insurance costs for workers compensation, vehicle liability and group medical insurance. See *Application of Critical Accounting Policies* below for further discussion of these estimates.

On October 18, 2004, we redeemed our \$201.3 million aggregate principal amount of convertible notes. In connection with that redemption, we wrote off \$3.8 million of unamortized debt issuance costs. We also paid a redemption premium to the registered holders of the convertible notes, consisting of 103.1429% of the principal amount of the convertible notes plus accrued interest. Other expense, net, in 2004 included a loss on the early redemption of the convertible notes of \$10.1 million, which consisted of the redemption premium and the write-off of unamortized debt issuance costs.

Investing activities of continuing operations

During 2006, we used \$53.2 million for investing activities, compared to \$81.4 million in 2005 and \$42.8 million in 2004. Investing activities include the acquisition of businesses and additions to and disposals of property, plant and equipment. Capital expenditures totaled \$53.7 million in 2006, \$77.6 million in 2005 and \$40.6 million in 2004. In 2006, capital expenditures totaled \$48.2 million in our Broadline segment, \$5.2 million in our Customized segment and \$0.3 million in our Corporate segment. Capital expenditures in our Broadline segment included expansions of several existing warehouses. We expect our 2007 capital expenditures to range between \$75 and \$85 million. In 2005, capital expenditures totaled \$29.2 million in our Broadline segment, \$48.3 million in our Customized segment and \$0.1 million in our Corporate segment. Capital expenditures in our Broadline segment included expansions of several existing warehouses. Capital expenditures in our Customized segment included costs related to our new Indiana, California and South Carolina facilities and expansions to our Texas and Florida facilities. In 2005, net cash paid for acquisitions consisted of \$3.9 million, related to contractual obligations in the purchase agreements for All Kitchens, Inc. (All Kitchens), which we acquired in 2000; Middendorf Meat Company (Middendorf Meat), which was acquired in 2002, and other companies acquired. In 2004, net cash paid for acquisitions was \$3.1 million, related to contractual obligations in the purchase agreements for Carroll County Foods, Inc. (Carroll Country Foods), All Kitchens and other companies acquired. In 2004, we also accrued approximately

\$1.3 million related to the settlement of the earnout agreement with Middendorf Meat; this amount was paid in the first quarter of 2005.

Financing activities of continuing operations

During 2006, we used \$43.4 million for financing activities, compared to \$564.2 million in 2005 and \$17.6 million in 2004. In 2006, utilizing a portion of the net proceeds received from the sale of our former fresh-cut segment, we utilized \$39.6

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million of cash, including transaction costs, to repurchase approximately 1.5 million shares of our outstanding common stock. In 2005, utilizing a portion of the net proceeds received from the sale of our former fresh-cut segment, we repaid \$210.0 million of borrowings outstanding under our previous revolving credit facility and utilized \$361.7 million of cash, including transaction costs, to repurchase approximately 12.2 million shares of our outstanding common stock. See Note 14 to our consolidated financial statements for details of our share repurchase and retirement. At December 30, 2006, total debt recorded on our consolidated balance sheet was \$12.2 million, which includes a capital lease obligation of \$9.0 million.

On October 7, 2005, we entered into a Second Amended and Restated Credit Agreement (Credit Agreement) that provides us with up to \$400 million in borrowing capacity, with a \$100 million sublimit for letters of credit, under our Credit Facility that expires on October 7, 2010. We have the right, without the consent of the lenders, to increase the total amount of the facility to \$600 million. Borrowings under the Credit Agreement bear interest, at our option, at the Base Rate, defined as the greater of the Administrative Agent's prime rate or the overnight federal funds rate plus 0.50%, or LIBOR plus a spread of 0.50% to 1.25%. The Credit Agreement also provides for a fee ranging between 0.125% and 0.225% of unused commitments. The Credit Agreement requires the maintenance of certain financial ratios, as described in the Credit Agreement, and contains customary events of default. At December 30, 2006, we had no borrowings outstanding, \$48.1 million of letters of credit outstanding and \$351.9 million available under the Credit Facility, subject to compliance with customary borrowing conditions.

In 2004, we reduced our total debt by \$75.3 million through a combination of debt repayments of \$202.0 million, partially offset by \$126.8 million in additional borrowings under our Credit Facility. On October 18, 2004, we redeemed our convertible notes with additional borrowings under our Credit Facility described below. We paid the registered holders of the convertible notes the redemption price of 103.1429% of the principal amount of the convertible notes plus accrued interest. Other expense, net, in 2004 included a loss on the early redemption of the convertible notes of \$10.1 million, which consisted of the redemption premium and the write-off of unamortized debt issuance costs.

Our associates who exercised stock options and purchased our stock under the Employee Stock Purchase Plan (the Stock Purchase Plan) provided \$8.2 million of proceeds in 2006, compared to \$12.7 million in 2005 and \$12.6 million in 2004. See Note 16 to our consolidated financial statements for details of our equity incentive plans and Employee Stock Purchase Plan.

Checks in excess of deposits decreased by \$12.3 million in 2006 and \$3.6 million in 2005 and increased by \$45.4 million in 2004. Checks in excess of deposits represent checks that we have written that are not yet cashed by the payee and in total exceed the current available cash balance at the respective bank. The decrease in checks in excess of deposits is due to higher inventory levels and timing of payments due to our efforts to improve cash management.

We believe that our cash flows from operations, borrowings under our Credit Facility and the sale of undivided interests in receivables under our Receivables Facility, discussed below, will be sufficient to fund our operations and capital expenditures for the foreseeable future. However, we will likely require additional sources of financing to the extent that we make acquisitions in the future.

The table below presents contractual cash obligations under long-term debt, capital leases, operating leases and purchase obligations as of December 30, 2006. Long-term debt on our consolidated balance sheet includes both debt and a capital lease obligation. Lease payments include payments due under our existing operating and capital leases. In the table below, Purchase obligations refers to specific agreements to purchase goods, which are enforceable and legally binding. Purchase obligations do not include outstanding purchase orders for inventory in the normal course of business and do not include non-cancelable service contracts. The table does not include liabilities for deferred income taxes or the Receivables Facility. This table should be read in conjunction with Notes 10, 12 and 18 to our consolidated financial statements.

(In thousands)

| Contractual Obligations | Total | Payments Due By Period | | | |
|-------------------------|-------|------------------------|------------------|------------------|----------------------|
| | | 1 Year and Less | Years 2 and 3 | Years 4 and 5 | More Than 5 Years |
| | | | | | |

| | | | | | |
|---|-----------|----------|----------|----------|-----------|
| Long-term debt obligations, (excluding interest) | \$ 3,247 | \$ 583 | \$ 1,291 | \$ 1,066 | \$ 307 |
| Operating and capital lease obligations | 260,763 | 35,383 | 58,290 | 38,533 | 128,557 |
| Purchase obligations | 16,030 | 16,030 | | | |
| Total | \$280,040 | \$51,996 | \$59,581 | \$39,599 | \$128,864 |

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Our Broadline segment had outstanding purchase orders for capital projects totaling \$14.6 million at December 30, 2006. Our Customized segment had outstanding purchase orders for capital projects totaling \$1.4 million at December 30, 2006. These contracts and purchase orders expire at various times throughout 2007. Also, at December 30, 2006, we had no outstanding contracts to purchase products. We expect to use future cash flows from operations and residual cash proceeds from the sale of our former fresh-cut segment to fund these obligations. We have entered into numerous operating leases, including leases of buildings, equipment, tractors and trailers. In certain of these leases, we have provided residual value guarantees to the lessors. Circumstances that would require us to perform under the guarantees include either (1) our default on the leases with the leased assets being sold for less than the specified residual values in the lease agreements, or (2) our decision 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. Our 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 2013. At December 30, 2006, the undiscounted maximum amount of potential future payments under these guarantees totaled \$7.6 million, which would be mitigated by the fair value of the leased assets at lease expiration. Our assessment as to whether it is probable that we will be required to make payments under the terms of the guarantees is based upon our actual and expected loss experience. Consistent with the requirements of Financial Accounting Standard Board Interpretation No. 45, we have recorded \$80,000 of the \$7.6 million of potential future payments under these guarantees on our consolidated balance sheet as of December 30, 2006. Additionally, we do not consider payments under these guarantees, if any, reasonably likely to have a material impact on our future consolidated financial condition, results of operations or cash flows. Notes 12 and 18 to our consolidated financial statements provide further discussion of these guarantees and the related accounting and disclosure requirements.

In connection with the sale of our former fresh-cut segment, we remained obligated on a guarantee of the future lease payments of one of the fresh-cut segment facilities that was sold to Chiquita. We will be required to perform under the guarantee if Chiquita defaults on its lease obligations. In connection with the sale of the fresh-cut segment to Chiquita, Chiquita assumed our obligation under the guarantee and agreed to indemnify us for any losses we suffer as a result of Chiquita's failure to perform its assumed obligations. Consistent with the requirements of FIN 45, we have recorded an estimated liability of \$2.5 million in our consolidated financial statements as of December 30, 2006. Subsequent to the balance sheet date, we entered into a substitution of collateral and sale-leaseback transaction involving the property subject to the guarantee and one of our Broadline operating company's facilities. As a result, we were released from the guarantee. For additional detail, see Note 20 to our consolidated financial statements.

Stock Based Compensation

Prior to January 1, 2006, we accounted for our stock incentive plans and our Stock Purchase Plan using the intrinsic value method of accounting provided under Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, (APB 25) and related interpretations, as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation*, (SFAS 123), under which no compensation expense was recognized for stock option grants and issuances of stock pursuant to our Stock Purchase Plan. Share-based compensation was a pro forma disclosure in the financial statement footnotes and continues to be provided for periods prior to fiscal 2006.

Effective January 1, 2006, we 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 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 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 123(R). Results for prior periods have not been restated.

On February 22, 2005, the Compensation Committee of our Board of Directors voted to accelerate the vesting of certain unvested options to purchase approximately 1.8 million shares of our common stock held by certain employees and officers under the 1993 Employee Stock Incentive Plan (the 1993 Plan) and the 2003 Equity Incentive Plan (the

2003 Plan), which had exercise prices greater than the closing price of our common stock on February 22, 2005. These options were accelerated such that upon the adoption of SFAS 123(R), effective January 1, 2006, we would not be required to incur any compensation cost related to the accelerated options. We believe this decision was in our best interest and the best interest of our shareholders. This acceleration did not result in us being required to recognize any compensation cost in our consolidated statement of earnings for the fiscal year ended December 31, 2005, as all stock options that were accelerated had exercise prices that were greater than the market price of our common stock on the date of modification; however, we were required to recognize all unvested compensation cost in our pro forma SFAS 123 disclosure in the period of acceleration. The pro forma

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expense of the acceleration was approximately \$7.3 million, net of tax, which represents all future compensation expense of the accelerated stock options on February 22, 2005, the date of modification.

The total share-based compensation cost recognized in operating expenses in our consolidated statements of earnings was \$4.9 million and \$1.0 million in 2006 and 2005, respectively, which represents the expense associated with our stock options, restricted stock and shares purchased under the Stock Purchase Plan. There was no share-based compensation cost recognized in 2004. The income tax benefit recognized in excess of the tax benefit related to the compensation cost incurred was \$2.0 million, \$3.1 million and \$4.9 million in 2006, 2005 and 2004, respectively. At December 30, 2006, there was \$4.1 million and \$8.3 million of total unrecognized compensation cost related to outstanding stock options and restricted stock, respectively, which will be recognized over the remaining weighted average vesting periods of 3.0 and 2.8 years, respectively.

As a result of adopting SFAS 123(R) on January 1, 2006, our earnings before income taxes and net earnings for 2006 were \$2.1 million and \$1.3 million lower, respectively, and basic EPS and diluted EPS for 2006 were both \$0.04 lower than if we had continued to account for share-based compensation under APB 25.

Discontinued Operations

In 2005, we sold all our stock in the subsidiaries that comprised our fresh-cut segment to Chiquita Brands International, Inc. for \$860.6 million and recorded a net gain of approximately \$186.8 million, net of approximately \$77.0 million in net tax expense. Of the net gain, approximately \$5.8 million represents post closing adjustments occurring after the initial gain was calculated upon closing of the transaction primarily related to final tax basis calculations. In accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, (SFAS 144), depreciation and amortization were discontinued beginning February 23, 2005, the day after we entered into a definitive agreement to sell our former fresh-cut segment. This resulted in a reduction of pre-tax expense of approximately \$12.8 million, or \$0.18 per share diluted, for 2005. During 2006, the net gain on sale was decreased by \$114,000 as a result of post-closing adjustments related to the working capital finalization and tax return reconciliations.

Earnings from discontinued operations for 2005, excluding gain on sale, were \$18.5 million, net of taxes of \$14.3 million. In accordance with Emerging Issues Task Force No. 87-24, *Allocation of Interest to Discontinued Operations*, we allocated to discontinued operations certain interest expense on debt that was required to be repaid as a result of the sale and a portion of interest expense associated with our revolving credit facility and subordinated convertible notes. The allocation percentage was calculated based on the ratio of net assets of the discontinued operations to consolidated net assets. Interest expense allocated to discontinued operations in 2005 and 2004 totaled \$3.2 million and \$8.5 million, respectively.

Off Balance Sheet Activities

We have a Receivables Facility, which is generally described as off balance sheet financing. In Financing Activities above, we describe certain purchase obligations and residual value guarantees, all of which could be considered off balance sheet items. Refer to the discussion in Financing Activities above and Notes 12 and 18 to our consolidated financial statements for further discussion of our commitments, contingencies and leases.

The Receivables Facility represents off balance sheet financing because the transaction and the financial institution's ownership interest in certain of our accounts receivable results in assets being removed from our consolidated balance sheet to the extent that the transaction qualifies for sale treatment under generally accepted accounting principles. This treatment requires us to account for the transaction with the financial institution as a sale of the undivided interest in the accounts receivable instead of reflecting the financial institution's net investment of \$130.0 million as debt. We believe that the Receivables Facility provides us with additional liquidity at a very competitive cost compared to other forms of financing.

In July 2001, we entered into the Receivables Facility, under which PFG Receivables Corporation, a wholly owned, special-purpose subsidiary, sold an undivided interest in certain of our trade receivables. PFG Receivables Corporation was formed for the sole purpose of buying receivables generated by certain of our operating units and selling an undivided interest in those receivables to a financial institution. Under the Receivables Facility, certain of our operating units sell 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 the financial institution. Our

operating units continue to service the receivables on behalf of the financial institution at estimated market rates. Accordingly, we have not recognized a servicing asset or liability.

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We received \$78.0 million of proceeds from the sale of the undivided interest in receivables under the Receivables Facility in 2001. In June 2003, we increased the amount of the undivided interest in the receivables that can be owned by the financial institution to \$165.0 million. In July 2003, we sold an incremental undivided interest in receivables under the Receivables Facility and received an additional \$32.0 million in proceeds. We used these proceeds to repay borrowings under our Credit Facility and to fund working capital needs. On October 4, 2004, we sold another incremental undivided interest in receivables under the Receivables Facility and received an additional \$20.0 million in proceeds. We used these proceeds to reduce amounts outstanding under the Credit Facility. In June 2006, the Company extended the term of the Receivables Facility through June 25, 2007. If the Receivables Facility terminates, either at its scheduled termination date or upon the occurrence of specified events (similar to events of default), payments on accounts receivable sold would be remitted to the financial institution in an amount equal to the institution's undivided interest.

At December 30, 2006, securitized accounts receivable totaled \$250.8 million, including \$130.0 million sold to the financial institution and derecognized from our consolidated balance sheet. Total securitized accounts receivable includes our residual interest in accounts receivable of \$120.8 million. At December 31, 2005, securitized accounts receivable totaled \$237.1 million, including \$130.0 million sold to the financial institution and derecognized from our consolidated balance sheet and the Residual Interest of \$107.1 million. The Residual Interest represents our retained interest in receivables held by PFG Receivables Corporation. We measure the Residual Interest using the estimated discounted cash flows of the underlying accounts receivable, based on estimated collections and a discount rate approximately equivalent to our incremental borrowing rate. Losses on the sale of the undivided interest in receivables of \$7.4 million in 2006, \$5.2 million in 2005 and \$2.4 million in 2004 are included in other expense, net, in our consolidated statements of earnings and represent our cost of securitizing those receivables with the financial institution.

We record the sale of the undivided interest in accounts receivable to the financial institution according to Statement of Financial Accounting Standards, or 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 our consolidated balance sheet. We record 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 December 30, 2006, the rate under the Receivables Facility was 5.7% per annum.

Business Combinations

During 2005 we paid approximately \$2.7 million related to contractual obligations in the purchase agreements for companies we acquired in 2002 and 2004. Also during 2005, we paid approximately \$1.3 million related to the settlement of an earnout agreement with the former owners of Middendorf Meat; this amount was accrued, with a corresponding increase to goodwill, in 2004.

In 2004, we paid \$3.1 million and issued approximately 9,000 shares of our common stock, net, valued at approximately \$400,000, related to contractual obligations in the purchase agreements for All Kitchens, which we acquired in 2002, Carroll County Foods, which we acquired in 2000, and other companies acquired. As discussed above, we also accrued approximately \$1.3 million in 2004 related to the settlement of an earnout agreement with the former owners of Middendorf Meat.

Subsequent Events*Sale-leaseback Transaction*

In January 2007, we entered into a substitution of collateral and sale-leaseback transaction involving one of our Broadline operating facilities and one of our former fresh-cut segment operating facilities. This transaction resulted in us being released from a guarantee of future lease payments on one of our former fresh-cut segment facilities that was sold to Chiquita, as discussed above and in Note 18 to our consolidated financial statements. Our Broadline operating facility was sold to a third party and leased back to us pursuant to a lease agreement with an initial term expiring in 2026. This transaction resulted in a gain of approximately \$2.9 million. Included within the gain is the \$2.5 million liability that was established in connection with that guarantee. 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.

Bond Repayment

In January 2007, we paid off the remaining principal balance outstanding on our Middendorf Meat tax-exempt private activity revenue bonds. See Note 10 to our consolidated financial statements for further description of these bonds.

Table of Contents**Application of Critical Accounting Policies**

We have prepared our consolidated financial statements and the accompanying notes in accordance with generally accepted accounting principles applied on a consistent basis. In preparing our financial statements, management must often make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, expenses and related disclosures at the date of the financial statements and during the reporting periods. Some of those judgments can be subjective and complex; consequently, actual results could differ from those estimates. We continually evaluate the accounting policies and estimates we use to prepare our financial statements. Management's estimates are generally based upon historical experience and various other assumptions that we determine to be reasonable in light of the relevant facts and circumstances. We believe that our critical accounting estimates include allowance for doubtful accounts, inventory valuation, goodwill and other intangible assets, insurance programs, vendor rebates and other promotional incentives, income taxes and share-based compensation.

Allowance for Doubtful Accounts. We evaluate the collectibility of our accounts receivable based on a combination of factors. We regularly analyze our significant customer accounts, and when we become aware of a specific customer's inability to meet its financial obligations to us, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position, we record a specific reserve for bad debt to reduce the related receivable to the amount we reasonably believe is collectible. We also record reserves for bad debt for all other customers based on a variety of factors, including the length of time the receivables are past due, the financial health of the customer, macroeconomic considerations and historical experience. If circumstances related to specific customers or other factors change, we may need to adjust our estimates of the recoverability of receivables. In 2006, 2005 and 2004, we wrote off uncollectible accounts receivable of \$6.4 million, \$9.3 million and \$5.1 million, respectively, against the allowance for doubtful accounts. In 2006, 2005 and 2004, we recorded estimates of \$4.2 million, \$8.4 million and \$7.8 million, respectively, in operating expenses to increase our allowance for doubtful accounts.

Inventory Valuation. We maintain reserves for slow-moving and obsolete inventories. These reserves are primarily based upon inventory age plus specifically identified inventory items and overall economic conditions. A sudden and unexpected change in consumer preferences or change in overall economic conditions could result in a significant change in the reserve balance and could require a corresponding charge to earnings. We actively manage our inventory levels to minimize the risk of loss and have consistently achieved a high level of inventory turnover.

Goodwill and Other Intangible Assets. Our goodwill and other intangible assets primarily include the cost of acquired subsidiaries in excess of the fair value of the tangible net assets recorded in connection with acquisitions. Other intangible assets include customer relationships, trade names, trademarks, patents and non-compete agreements. We use estimates and assumptions to determine the fair value of assets acquired and liabilities assumed, assigning lives to acquired intangibles and evaluating those assets for impairment after acquisition. These estimates and assumptions include indicators that would trigger an impairment of assets, whether those indicators are temporary, economic or competitive factors that affect valuation, discount rates and cash flow estimates. When we determine that the carrying value of such assets is not recoverable, or the estimated lives assigned to such assets are improper, we must reduce the carrying value of the assets to the net realizable value or adjust the amortization period of the asset, recording any adjustment in our consolidated statements of earnings. As of December 30, 2006, our unamortized goodwill was \$356.5 million and other intangible assets totaled \$47.6 million, net.

SFAS No. 142 was effective at the beginning of 2002, except for goodwill and other intangible assets resulting from business combinations completed subsequent to June 30, 2001, for which the standard was effective beginning July 1, 2001. In accordance with SFAS No. 142, we ceased amortizing goodwill and other intangible assets with indefinite lives as of the beginning of 2002. SFAS No. 142 requires us to assess goodwill and other intangible assets with indefinite lives for impairment annually in the absence of an indicator of possible impairment and immediately upon an indicator of possible impairment by estimating the fair value of our reporting units and our intangible assets with indefinite lives. If we determine that the fair values of our reporting units are less than the carrying amount of goodwill, we must recognize an impairment loss in our financial statements. To perform the assessment of significant other non-amortized intangible assets, we compare the book value of the asset to the discounted expected future operating cash flows to be generated by the specific asset. If we determine the discounted future operating cash flows

are less than the recorded values of other unamortized assets, we must recognize an impairment loss in our financial statements. Annually, we are also required to evaluate the remaining useful life of intangible assets that are not being amortized to determine whether events and circumstances continue to support an indefinite useful life.

In the fourth quarter of 2006, we performed our annual impairment assessment of goodwill and other intangible assets with indefinite lives for our Broadline segment, in accordance with the provisions of SFAS No. 142. Our Customized segment has no goodwill or other intangible assets. In 2006, 2005 and 2004, no impairment loss was recorded based on these assessments. In testing for potential impairment, we measured the estimated fair value of our reporting units and intangible assets with

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indefinite lives based upon discounting future operating cash flows using an appropriate discount rate. A 10% change in our estimates of projected future operating cash flows or discount rate used in our calculation of the fair value of the reporting units would have no impact on the reported value of our goodwill and other intangible assets with indefinite lives on our consolidated balance sheet as of December 30, 2006.

We report intangible assets with definite lives at cost less accumulated amortization. We compute amortization over the estimated useful lives of the respective assets, generally three to 40 years. We test these intangible assets for impairment whenever events or changes in circumstances indicate that the carrying amount of a particular asset may not be recoverable, in accordance with SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*. In order to evaluate the recoverability of an asset, we compare the carrying value of the asset to the estimated undiscounted future cash flows expected to be generated by the asset. If we determine that the estimated, undiscounted future cash flows of the asset are less than its carrying amount on our consolidated balance sheet, we must record an impairment loss in our financial statements. In 2006, 2005 and 2004, no impairment loss was recorded for intangible assets with definite lives. Due to the numerous variables associated with our judgments and assumptions related to the valuation of the reporting units and intangible assets with definite lives, and the effects of changes in circumstances affecting these valuations, both the precision and reliability of the resulting estimates are subject to uncertainty.

Therefore, as we become aware of additional information, we may change our estimates.

Insurance Programs. We maintain self-insurance programs covering portions of our general and vehicle liability, workers' compensation and group medical insurance. The amounts in excess of the self-insured levels are fully insured by third parties, subject to certain limitations and exclusions. The Company utilizes third party actuaries to assist in the calculation of these reserves. We accrue an estimated liability for these self-insured programs, including an estimate for incurred but not reported claims, based on known claims and past claims history. These accrued liabilities are included in accrued expenses on our consolidated balance sheets. Our reserves for insurance claims include estimates of the frequency and timing of claim occurrences, as well as the ultimate amounts to be paid. The accounting estimate of the self-insurance liability includes both known and incurred but not reported insurance claims. This estimate is highly susceptible to change from period to period if claims differ from past claims history, which could have a material impact on our financial position and results of operations. If we experience claims in excess of our estimates by 5%, our insurance expense and related insurance liability would increase by \$3.5 million, negatively affecting our consolidated financial statements.

Vendor Rebates and Other Promotional Incentives. We participate in various rebate and promotional incentives with our suppliers, including volume and growth rebates, annual and multi-year incentives and promotional programs. In accounting for vendor rebates, we follow the guidance in EITF No. 02-16, *Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor* and EITF No. 03-10, *Application of Issue No. 02-16 by Resellers to Sales Incentives Offered to Consumers by Manufacturers*.

We generally record consideration received under these incentives as a reduction of cost of goods sold. However, in certain circumstances, we record the consideration as a reduction of costs that we incur. We may receive consideration in the form of cash and/or invoice deductions. We treat changes in the estimated amount of incentives to be received as changes in estimates and recognize them in the period of change.

We record consideration that we receive for incentives containing volume and growth rebates and annual and multi-year incentives as a reduction of cost of goods sold. We systematically and rationally allocate the consideration for these incentives to each of the underlying transactions that results in progress by us toward earning the incentives. If the incentives are not probable and reasonably estimable, we record the incentives as the underlying objectives or milestones are achieved. We record annual and multi-year incentives when we earn them, generally over the agreement period. We estimate whether we will achieve the underlying objectives or milestones using current and historical purchasing data, forecasted purchasing volumes and other factors. We record consideration received to promote and sell the supplier's products as a reduction of our costs, as the consideration is typically a reimbursement of costs incurred by us. If we receive consideration from the suppliers in excess of our costs, we record any excess as a reduction of cost of goods sold.

Income Taxes. We account for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes*. We must make judgments in determining our provision for income taxes. In the ordinary course of business, many

transactions occur for which the ultimate tax outcome is uncertain at the time of the transaction. We adjust our income tax provision in the period in which we determine that it is probable that our actual results will differ from our estimates. Tax law and rate changes are reflected in the income tax provision in the period in which such changes are enacted.

At December 30, 2006 and December 31, 2005, we had \$2.8 million and \$2.1 million, respectively, of net deferred tax assets related to net operating loss carry-forwards for state income tax purposes. The net operating loss carry-forwards at December 30, 2006 expire in years 2007 through 2026. Additionally, at December 30, 2006, we had certain state income tax credit

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carry-forwards, which expire in years 2018 through 2021. Our realization of these deferred tax assets is dependent upon future taxable income.

We evaluate the need to record valuation allowances that would reduce deferred tax assets to the amount that is more likely than not to be realized. When assessing the need for valuation allowances, we project future taxable income and consider prudent and feasible tax planning strategies, such as the legal entity changes in which we converted, through merger or conversion, most of our Broadline operating company subsidiaries to limited liability companies. Should a change in circumstances lead to a change in judgment about the realizability of deferred tax assets in future years, we would record valuation allowances in the period that the change in circumstances occurs, along with a corresponding charge to net earnings. Based on our evaluation, we recorded an allowance that is adequate to reduce the total deferred tax asset to an amount that will more likely than not be realized.

Share-Based Compensation. On January 1, 2006, we adopted SFAS 123(R), which requires all share-based payments, including grants of stock options, restricted shares and shares issued under the Stock Purchase Plan, to be recognized in the income statement as an operating expense, based on their grant date fair values. During 2006 and 2005, our total share-based compensation costs were \$4.9 million and \$1.0 million, respectively. At December 30, 2006 there was \$4.1 million and \$8.3 million of total unrecognized compensation cost related to outstanding options and restricted stock, respectively, which has been reduced by an estimate for anticipated forfeitures.

We estimate the fair value of each option award on the date of grant using a Black-Scholes based option-pricing model. The Black-Scholes pricing model utilizes the following estimations and assumptions: expected volatility, expected option term, and the risk-free interest rate. Expected volatility is based on the historical fluctuations in the price of our stock. Expected option term is based on our historical option exercise history. The risk-free interest rate is based on the U.S. Treasury yield curve at the date of grant. In addition, we estimate our expected forfeitures for restricted stock and stock options using our historical forfeiture data. Our expected forfeiture estimate is used to reduce our gross share-based compensation expense in accordance with SFAS 123(R). Changes in the above-mentioned Black-Scholes model inputs and/or forfeiture rate could have an impact on our earnings. Management has discussed the development and selection of these critical accounting policies with the audit committee of the board of directors, and the audit committee has reviewed the above disclosure. Our financial statements contain other items that require estimation, but are not as critical as those discussed above. These include our calculations for bonus accruals, depreciation and amortization. Changes in estimates and assumptions used in these and other items could have an effect on our consolidated financial statements.

Recently Issued Accounting Pronouncements

In March 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 156, *Accounting for Servicing of Financial Assets* (SFAS 156). SFAS 156 requires an entity to recognize a servicing asset or liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in certain situations and requires all separately recognized servicing assets and liabilities to be initially measured at fair value, if practicable. SFAS No. 156 will be effective for our 2007 fiscal year. The adoption of SFAS 156 will not have a material impact on our consolidated financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement 109*. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return, including a decision whether to file or not to file income tax returns in a particular jurisdiction. FIN 48 is effective for fiscal years beginning after December 15, 2006. If there are changes in net assets as a result of application of FIN 48, these will be accounted for as an adjustment to beginning retained earnings. We will adopt the provisions of FIN 48 in our first fiscal quarter of 2007. We do not expect the adoption of FIN 48 to have a material impact on our consolidated financial position or results of operations.

Table of Contents**Quarterly Results and Seasonality**

Set forth below is certain summary information with respect to our operations for the most recent eight fiscal quarters. All of the fiscal quarters set forth below had 13 weeks. Historically, the restaurant and foodservice business is seasonal, with lower profit in the first quarter. Consequently, we may experience lower net profit during the first quarter, depending on the timing of any future acquisitions. Management believes our quarterly net profit will continue to be impacted by the seasonality of the restaurant business.

| <i>(In thousands, except per share amounts)</i> | 2006 | | | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| | 1 st Quarter | 2 nd Quarter | 3 rd Quarter | 4 th Quarter |
| Net sales | \$1,469,493 | \$1,448,027 | \$1,429,765 | \$1,479,447 |
| Gross profit | 187,254 | 193,203 | 194,353 | 199,825 |
| Operating profit | 10,722 | 21,530 | 20,111 | 22,747 |
| Earnings from continuing operations before income taxes | 9,290 | 19,754 | 18,753 | 20,745 |
| Earnings from continuing operations | 5,674 | 12,168 | 12,175 | 12,883 |
| (Loss) earnings from discontinued operations | (32) | 13 | (132) | 36 |
| Net earnings | \$ 5,642 | \$ 12,181 | \$ 12,043 | \$ 12,919 |
| Basic earnings per common share: | | | | |
| Continuing operations | \$ 0.16 | \$ 0.36 | \$ 0.35 | \$ 0.37 |
| Discontinued operations | | | | |
| Net earnings | \$ 0.16 | \$ 0.36 | \$ 0.35 | \$ 0.38 |
| Diluted earnings per common share: | | | | |
| Continuing operations | \$ 0.16 | \$ 0.35 | \$ 0.35 | \$ 0.37 |
| Discontinued operations | | | | |
| Net earnings | \$ 0.16 | \$ 0.35 | \$ 0.35 | \$ 0.37 |

| <i>(In thousands, except per share amounts)</i> | 2005 | | | |
|---|-------------------------|-------------------------|-------------------------|-------------------------|
| | 1 st Quarter | 2 nd Quarter | 3 rd Quarter | 4 th Quarter |
| Net sales | \$ 1,422,807 | \$ 1,456,735 | \$ 1,401,780 | \$ 1,440,050 |
| Gross profit | 179,916 | 189,392 | 185,868 | 192,230 |
| Operating profit | 9,426 | 21,951 | 17,623 | 21,478 |
| Earnings from continuing operations before income taxes | 7,611 | 19,817 | 19,206 | 20,457 |
| Earnings from continuing operations | 4,683 | 12,246 | 11,911 | 12,923 |
| Earnings (loss) from discontinued operations | 9,012 | 191,549 | (464) | 5,278 |
| Net earnings | \$ 13,695 | \$ 203,795 | \$ 11,447 | \$ 18,201 |

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|---|----|------|----|------|----|--------|----|------|
| Basic earnings (loss) per common share: | | | | | | | | |
| Continuing operations | \$ | 0.10 | \$ | 0.26 | \$ | 0.28 | \$ | 0.35 |
| Discontinued operations | | 0.19 | | 4.08 | | (0.01) | | 0.14 |
| Net earnings | \$ | 0.29 | \$ | 4.34 | \$ | 0.27 | \$ | 0.49 |
| Diluted earnings (loss) per common share: | | | | | | | | |
| Continuing operations | \$ | 0.10 | \$ | 0.26 | \$ | 0.28 | \$ | 0.35 |
| Discontinued operations | | 0.19 | | 4.02 | | (0.01) | | 0.14 |
| Net earnings | \$ | 0.29 | \$ | 4.28 | \$ | 0.27 | \$ | 0.49 |

Table of Contents**Item 7A. Quantitative and Qualitative Disclosures About Market Risk.**

Our primary market risks are related to fluctuations in interest rates and changes in commodity prices. Our primary interest rate risk is from changing interest rates related to any borrowings under our Credit Facility. We currently manage this risk through a combination of fixed and floating rates on these obligations. As of December 30, 2006, our total debt of \$12.2 million, including a capital lease obligation of \$9.0 million, consisted entirely of fixed-rate debt. As of December 31, 2005, our total debt of \$3.8 million consisted entirely of fixed rate debt. In addition, our Receivables Facility has a floating rate based upon a 30-day commercial paper rate and our Credit Facility, which we currently have no outstanding borrowings on, is based on LIBOR. A 100 basis-point increase in market interest rates on all of our floating-rate debt and our Receivables Facility would result in a decrease in net earnings and cash flows of approximately \$0.8 million per annum, holding other variables constant. See Notes 10 and 7 to the consolidated financial statements for further discussion of our debt and Receivables Facility, respectively.

Significant commodity price fluctuations for certain commodities that we purchase could have a material impact on our results of operations. In an attempt to manage our commodity price risk, our Broadline segment enters into contracts to purchase pre-established quantities of products in the normal course of business. We have not entered into any commitments to purchase products as of December 30, 2006.

Item 8. Financial Statements and Supplementary Data.

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| <u>Schedule II - Valuation and Qualifying Accounts</u> | 68 |

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure.

None.

Item 9A. Controls and Procedures.**Evaluation of Disclosure Controls and Procedures**

We maintain disclosure controls and procedures, as defined in Rule 13a-15(e) promulgated under the Securities Exchange Act of 1934 (the Exchange Act), which are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

Management's Report on Internal Control Over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting, as defined in Rule 13a-15(f) under the Exchange Act. Our management recognizes that there are inherent limitations in the effectiveness of any internal control over financial reporting, including that it may not prevent or detect misstatements on a timely basis. Accordingly, even effective internal control over financial reporting can provide only reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for

external purposes in accordance with generally accepted accounting principles. Further, because of changes in conditions, the effectiveness of internal control over financial reporting may vary over time or become inadequate.

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Our management assessed the effectiveness of our internal control over financial reporting as of December 30, 2006. In making this assessment, management used the criteria described in *Internal Control - Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission. Management concluded that, as of December 30, 2006, our internal control over financial reporting is effective based on these criteria. Our independent registered public accounting firm, KPMG LLP, has issued an audit report on our assessment of our internal control over financial reporting, which is included in this Annual Report on Form 10-K.

Changes in Internal Control Over Financial Reporting

There were no changes in our internal control over financial reporting during the quarter ended December 30, 2006 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 9B. Other Information.

None.

Table of Contents**PART III****Item 10. Directors, Executive Officers and Corporate Governance.**

The Proxy Statement issued in connection with the shareholders meeting to be held on May 15, 2007, contains under the captions Proposal 1: Election of Directors and Section 16(a) Beneficial Ownership Reporting Compliance information required by Item 10 of Form 10-K, including disclosures about certain corporate governance matters, the audit committee, and any audit committee financial expert, and is incorporated herein by reference. Pursuant to General Instruction G (3), certain information concerning our executive officers is included in Part I of this Form 10-K, under the caption Executive Officers.

We have adopted a code of corporate conduct for all of our associates (including officers) and directors (the Code of Corporate Conduct), a copy of which has been posted on our website at www.pfgc.com. Please note that our website address is provided as an inactive textual reference only. We will make any legally required disclosures regarding amendments to, or waivers of, provisions of our Code of Corporate Conduct in accordance with the rules and regulations of the SEC and the National Association of Securities Dealers, Inc., and may make such disclosures on our website at www.pfgc.com.

Item 11. Executive Compensation.

The Proxy Statement issued in connection with the shareholders meeting to be held on May 15, 2007, contains under the caption Executive Compensation information required by Item 11 of Form 10-K and is incorporated herein by reference.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters.

The following table summarizes information concerning our equity compensation plans at December 30, 2006:

| Plan Category | Number of Shares to be Issued upon Exercise of Outstanding Options and Warrants | Weighted Average Exercise Price of Outstanding Options and Warrants | Number of Shares Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Shares Reflected in First Column)* |
|---|---|---|---|
| Equity compensation plans approved by shareholders | 2,863,480 | \$ 27.75 | 2,402,079 |
| Equity compensation plans not approved by shareholders | N/A | N/A | N/A |
| Total | 2,863,480 | \$ 27.75 | 2,402,079 |

* Includes 409,072 shares available for future issuance under our Employee Stock Purchase Plan as of December 30,

2006, of which
approximately
56,000 were
issued on
January 15,
2007.

The Proxy Statement issued in connection with the shareholders meeting to be held on May 15, 2007, contains under the captions Security Ownership of Certain Beneficial Owners and Security Ownership of Directors and Executive Officers, information required by Item 12 of Form 10-K and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions, and Director Independence.

The Proxy Statement issued in connection with the shareholders meeting to be held May 15, 2007, contains under the caption, Certain Transactions and Proposal 1: Election of Directors information required by Item 13 of Form 10-K and is incorporated herein by reference.

Item 14. Principal Accountants Fees and Services.

Information with respect to fees and services related to our independent registered public accounting firm, KPMG LLP, and the disclosure of the Audit Committee's pre-approval policies and procedures related to audit fees and services are contained under the caption Relationship with Independent Registered Public Accounting Firm in the Proxy Statement issued in connection with the shareholders meeting to be held on May 15, 2007, and is incorporated herein by reference.

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PART IV

Item 15. Exhibits, Financial Statement Schedules.

- (a) 1 Financial Statements. See index to Financial Statements above.
 2 Financial Statement Schedules. See index to Financial Statement Schedules above.
 3 Exhibits:

| Exhibit Number | Description |
|-------------------|---|
| A. | <i>Incorporated by reference to our Registration Statement on Form S-1 (No. 33-64930) (File No. 0-22192), filed June 24, 1993:</i> |
| 3.2 | Restated Bylaws of Registrant. |
| 4.1 | Specimen Common Stock certificate. |
| 4.2 | Article 5 of the Registrant's Restated Charter (included in Exhibit 3.1). |
| 4.3 | Article 6 of the Registrant's Restated Bylaws (included in Exhibit 3.2). |
| 10.1 | 1993 Outside Directors' Stock Option Plan.* |
| 10.2 | Form of Pocahontas Food Group, Inc. Executive Deferred Compensation Plan.* |
| 10.3 | Form of Indemnification Agreement. |
| B. | <i>Incorporated by reference to our Annual Report on Form 10-K for the fiscal year ended January 1, 1994 (File No. 0-22192), filed March 29, 1994:</i> |
| 10.4 | First Amendment to the Trust Agreement for Pocahontas Food Group, Inc. Employee Savings and Stock Ownership Plan. |
| 10.5 | Performance Food Group Employee Stock Purchase Plan.* |
| C. | <i>Incorporated by reference to our Annual Report on Form 10-K for the fiscal year ended December 28, 1996 (File No. 0-22192), filed March 27, 1997:</i> |
| 10.6 | Performance Food Group Company Employee Savings and Stock Ownership Plan Savings Trust. |
| D. | <i>Incorporated by reference to our Report on Form 8-K dated May 20, 1997 (File No. 0-22192), filed May 20, 1997:</i> |
| 10.7 | Rights Agreement dated as of May 16, 1997 between Performance Food Group Company and First Union National Bank of North Carolina, as Rights Agent. |
| E. | <i>Incorporated by reference to our Annual Report on Form 10-K for the fiscal year ended December 27, 1997 (File No. 0-22192), filed March 26, 1998:</i> |
| 10.8 | |

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Form of Change in Control Agreement dated October 29, 1997 with John D. Austin, Thomas Hoffman and Robert C. Sledd.*

10.9 Form of Change in Control Agreement dated October 27, 1997 with certain key executives.*

F. Incorporated by reference to our Annual Report on Form 10-K for the fiscal year ended January 2, 1999 (File No. 0-22192), filed April 1, 1999:

10.10 Performance Food Group Company Executive Deferred Compensation Plan.*

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| Exhibit Number | Description |
|-------------------|---|
| | <i>G. Incorporated by reference to our Report on Form 8-K dated November 27, 2000 (File No. 0-22192), filed November 27, 2000:</i> |
| 10.11 | Amendment No. 1 to Rights Agreement dated June 30, 1999 between Performance Food Group Company and American Stock Transfer Trust Company, as subsequent Rights Agent. |
| 10.12 | Amendment No. 2 to Rights Agreement dated November 22, 2000 between Performance Food Group Company and American Stock Transfer Trust Company, as subsequent Rights Agent. |
| | <i>H. Incorporated by reference to our Registration Statement on Form S-4 (Registration No 333-61612) (File No. 0-22192), filed May 25, 2001:</i> |
| 3.1 | Restated Charter of Registrant. |
| | <i>I. Incorporated by reference to our Quarterly Report on Form 10-Q for the quarter ended June 30, 2001 (File No. 0-22192), filed August 14, 2001:</i> |
| 10.13 | Receivables Purchase Agreement dated July 3, 2001, by and among PFG Receivables Corporation, as Seller, Performance Food Group Company, as Servicer, Jupiter Securitization Corporation and Bank One, NA as Agent. (Schedules and other exhibits are omitted from this filing, but the Registrant will furnish supplemental copies of the omitted material to the Securities and Exchange Commission upon request.) |
| | <i>J. Incorporated by reference to our Annual Report on Form 10-K for the fiscal year ended December 29, 2001 (File No. 0-22192), filed March 29, 2002:</i> |
| 10.14 | 1993 Employee Stock Incentive Plan (restated electronically for SEC filing purposes only).* |
| | <i>K. Incorporated by reference to our Quarterly Report on Form 10-Q for the quarter ended June 29, 2002 (File No. 0-22192), filed August 13, 2002:</i> |
| 10.15 | Amendment to Receivable Purchase Agreement dated as of July 12, 2002, by and among PFG Receivables Corporation, as Seller, Performance Food Group Company, as Servicer, Jupiter Securitization Corporation and Bank One, NA, as Agent. |
| | <i>L. Incorporated by reference to our Registration Statement on Form S-8 (File No. 333-105082), filed May 8, 2003:</i> |
| 10.16 | 2003 Equity Incentive Plan.* |
| | <i>M. Incorporated by reference to our Quarterly Report on Form 10-Q for the quarter ended June 28, 2003 (File No. 0-22192), filed August 12, 2003:</i> |
| 10.17 | Amendment to Receivables Purchase Agreement dated as of June 30, 2003, by and among PFG Receivables Corporation, as Seller, Performance Food Group Company, as Servicer, Jupiter Securitization Corporation and Bank One, NA, as Agent. |

N. Incorporated by reference to our Annual Report on Form 10-K for the fiscal year ended February 3, 2004 (File No. 0-22192), filed March 18, 2004:

10.18 Performance Food Group Company Supplemental Executive Retirement Plan.*

10.19 Amended and Restated Performance Food Group Company Employee Savings and Stock Ownership Plan, as amended.*

O. Incorporated by reference to our Quarterly Report on Form 10-Q for the quarter ended April 3, 2004 (File No. 0-22192), filed May 12, 2004:

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| Exhibit Number | Description |
|-------------------|---|
| 10.20 | Lease agreement for our Little Rock, Arkansas facility. |
| 10.21 | Severance agreement with C. Michael Gray.* |
| P. | <i>Incorporated by reference to our Quarterly Report on Form 10-Q for the quarter ended July 3, 2004 (File No. 0-22192), filed August 11, 2004:</i> |
| 10.22 | Amendment to Receivables Purchase Agreement dated as of June 28, 2004 by and between PFG Receivables Corporation, as Seller, Performance Food Group Company, as Servicer, Jupiter Securitization Corporation and Bank One, NA, as Agent. |
| Q. | <i>Incorporated by reference to our Quarterly Report on Form 10-Q for the quarter ended October 2, 2004 (File No. 0-22192), filed November 12, 2004:</i> |
| 10.23 | Form of Non-Qualified Stock Option Agreement.* |
| 10.24 | Form of Incentive Stock Option Agreement.* |
| R. | <i>Incorporated by reference to our Annual Report on Form 10-K for the fiscal year ended January 1, 2005:</i> |
| 10.25 | Trust Agreement for the Performance Food Group Employee Savings and Stock Ownership Plan. |
| S. | <i>Incorporated by reference to our Current Report on Form 8-K dated January 6, 2005 (File No. 0-22192):</i> |
| 10.26 | Senior Management Severance Plan.* |
| T. | <i>Incorporated by reference to our Current Report on Form 8-K dated February 28, 2005 (File No. 0-22192):</i> |
| 2.1 | Stock Purchase Agreement, dated as of February 22, 2005, between Performance Food Group Company and Chiquita Brands International, Inc. (Pursuant to Item 601(b)(2) of Regulation S-K the schedules and exhibits to this agreement have been omitted from this filing.) |
| U. | <i>Incorporated by reference to our Current Report on Form 8-K dated March 21, 2005 (File No. 0-22192):</i> |
| 10.27 | Performance Food Group Company 2005 Cash Incentive Plan.* |
| 10.28 | Form of Restricted Share Award Agreement.* |
| V. | <i>Incorporated by reference to our Current Report on Form 8-K dated April 28, 2005 (File No. 0-22192):</i> |
| 10.29 | Amendment and Waiver, dated as of April 26, 2005 among Performance Food Group Company, the Lenders party to the Credit Agreement and Wachovia Bank, National Association, as Administrative |

Agent for the Lenders.

W. Incorporated by reference to our Current Report on Form 8-K dated May 24, 2005 (File No. 0-22192):

10.30 Form of Non-Qualified Stock Option Agreement.*

X. Incorporated by reference to our Current Report on Form 8-K dated June 30, 2005 (File No. 0-22192):

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| Exhibit Number | Description |
|-------------------|--|
| 10.31 | Amendment to Receivables Purchase Agreement dated as of June 27, 2005 by and between PFG Receivables Corporation, as Seller, Performance Food Group Company, as Servicer, Jupiter Securitization Corporation and JPMorgan Chase Bank, N.A., successor by merger to Bank One, NA, as Agent. |
| <i>Y.</i> | <i>Incorporated by reference to our Current Report on Form 8-K dated August 29, 2005 (File No. 0-22192):</i> |
| 10.32 | Director Compensation Summary.* |
| <i>Z.</i> | <i>Incorporated by reference to our Current Report on Form 8-K dated October 11, 2005 (File No. 0-22192):</i> |
| 10.33 | Second Amended and Restated Credit Agreement dated as of October 7, 2005 by and among Performance Food Group Company, the Lenders a party thereto, and Wachovia Bank, National Association as Administrative Agent for the Lenders. |
| 10.34 | Form of Revolving Credit Note. |
| <i>AA.</i> | <i>Incorporated by reference to our Current Report on Form 8-K dated March 1, 2006 (File No. 0-22192):</i> |
| 10.35 | Performance Food Group Company 2006 Cash Incentive Plan.* |
| <i>BB.</i> | <i>Incorporated by reference to our Current Report on Form 8-K dated April 13, 2006 (File No. 0-22192):</i> |
| 10.36 | Form of Non-Qualified Stock Option Agreement.* |
| <i>CC.</i> | <i>Incorporated by reference to our Current Report on Form 8-K dated May 17, 2006 (File No. 0-22192):</i> |
| 10.37 | Form of Non-Employee Director Restricted Share Award Agreement.* |
| <i>DD.</i> | <i>Incorporated by reference to our Current Report on Form 8-K dated June 29, 2006 (File No. 0-22192):</i> |
| 10.38 | Amendment to Receivables Purchase Agreement dated as of June 26, 2006 by and between PFG Receivables Corporation, as Seller, Performance Food Group Company, as Servicer, Jupiter Securitization Corporation and JPMorgan Chase Bank, N.A., successor by merger to Bank One, NA (Main Office Chicago). |
| <i>EE.</i> | <i>Incorporated by reference to our Current Report on Form 8-K dated August 21, 2006 (File No. 0-22192)</i> |
| 10.39 | Steven L. Spinner Executive Compensation Summary.* |
| <i>FF.</i> | <i>Incorporated by reference to our Quarterly Report on Form 10-Q for the quarter ended September 30, 2006 (File No. 0-22192) filed November 7, 2006:</i> |
| 10.40 | |

Amendment No. 3 to Rights Agreement dated September 8, 2006 between Performance Food Group Company and Bank of New York, as subsequent Rights Agent.

GG. *Incorporated by reference to our Current Report on Form 8-K dated November 22, 2006 (File No. 0-22192):*

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| Exhibit Number | Description |
|-------------------|---|
| 10.41 | Amendment to Performance Food Group Company Supplemental Executive Retirement Plan.* |
| HH. | <i>Filed herewith:</i> |
| 10.42 | Named Executive Officer and Director Compensation Summary.* |
| 10.43 | Amendment to Performance Food Group Company Employee Stock Purchase Plan.* |
| 21 | List of Subsidiaries. |
| 23.1 | Consent of Independent Registered Public Accounting Firm. |
| 31.1 | Certification of the Chief Executive Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 31.2 | Certification of the Chief Financial Officer pursuant to Section 302 of the Sarbanes-Oxley Act of 2002. |
| 32.1 | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002. |

* Management
contract or
compensatory
plan or
arrangement

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SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized on February 27, 2007.

PERFORMANCE FOOD GROUP COMPANY

By: /s/ Steven L. Spinner

Steven L. Spinner
President and Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| Signature | Title | Date |
|--|---|-------------------|
| /s/ Steven L. Spinner Steven L. Spinner | Director, President and Chief Executive Officer (Principal Executive Officer) | February 27, 2007 |
| /s/ John D. Austin John D. Austin | Senior Vice President and Chief Financial Officer (Principal Financial and Accounting Officer) | February 27, 2007 |
| /s/ Robert C. Sledd Robert C. Sledd | Chairman of the Board | February 27, 2007 |
| /s/ Charles E. Adair Charles E. Adair | Director | February 27, 2007 |
| /s/ Mary C. Doswell Mary C. Doswell | Director | February 27, 2007 |
| /s/ Fred C. Goad, Jr. Fred C. Goad, Jr. | Director | February 27, 2007 |
| /s/ Timothy M. Graven Timothy M. Graven | Director | February 27, 2007 |
| /s/ John E. Stokely John E. Stokely | Director | February 27, 2007 |

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Report of Independent Registered Public Accounting Firm

The Board of Directors

Performance Food Group Company:

We have audited management's assessment, included in the accompanying *Management's Report on Internal Control over Financial Reporting*, that Performance Food Group Company (the Company) maintained effective internal control over financial reporting as of December 30, 2006, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting. Our responsibility is to express an opinion on management's assessment and an opinion on the effectiveness of the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, evaluating management's assessment, testing and evaluating the design and operating effectiveness of internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the Company are being made only in accordance with authorizations of management and directors of the Company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the Company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assessment that the Company maintained effective internal control over financial reporting as of December 30, 2006, is fairly stated, in all material respects, based on criteria established in *Internal Control-Integrated Framework* issued by COSO. Also, in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 30, 2006, based on criteria established in *Internal Control-Integrated Framework* issued by COSO.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of Performance Food Group Company and subsidiaries as of December 30, 2006 and December 31, 2005, and the related consolidated statements of earnings, shareholders' equity, and cash flows for each of the fiscal years in the three-year period ended December 30, 2006, and our report dated February 26, 2007, expressed an unqualified opinion on those consolidated financial statements.

/s/ KPMG LLP

Richmond, Virginia

February 26, 2007

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Report of Independent Registered Public Accounting Firm

The Board of Directors

Performance Food Group Company:

We have audited the accompanying consolidated balance sheets of Performance Food Group Company and subsidiaries (the Company) as of December 30, 2006 and December 31, 2005, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the fiscal years in the three-year period ended December 30, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Performance Food Group Company and subsidiaries as of December 30, 2006 and December 31, 2005, and the results of their operations and their cash flows for each of the fiscal years in the three-year period ended December 30, 2006, in conformity with U.S. generally accepted accounting principles.

As discussed in Note 2 to the consolidated financial statements, effective January 1, 2006, the Company adopted Statement of Financial Accounting Standards No. 123(R), Share-Based Payment.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the effectiveness of the Company's internal control over financial reporting as of December 30, 2006, based on criteria established in *Internal Control-Integrated Framework* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO), and our report dated February 26, 2007, expressed an unqualified opinion on management's assessment of, and the effective operation of, internal control over financial reporting.

/s/ KPMG LLP

Richmond, Virginia

February 26, 2007

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**PERFORMANCE FOOD GROUP COMPANY
CONSOLIDATED BALANCE SHEETS**

| <i>(Dollar amounts in thousands, except per share amounts)</i> | 2006 | 2005 |
|--|-------------|-------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 75,087 | \$ 99,461 |
| Accounts receivable, net, including residual interest in securitized receivables | 226,058 | 190,481 |
| Inventories | 308,901 | 303,073 |
| Prepaid expenses and other current assets | 9,991 | 9,328 |
| Income taxes receivable | | 6,448 |
| Deferred income taxes | 23,161 | 13,412 |
| Current assets from discontinued operations (Note 3) | 2,267 | 10,115 |
| | | |
| Total current assets | 645,465 | 632,318 |
| Goodwill, net | 356,509 | 356,597 |
| Property, plant and equipment, net | 291,947 | 255,816 |
| Other intangible assets, net | 47,575 | 51,213 |
| Other assets | 18,279 | 16,346 |
| | | |
| Total assets | \$1,359,775 | \$1,312,290 |
| LIABILITIES AND SHAREHOLDERS EQUITY | | |
| Current liabilities: | | |
| Outstanding checks in excess of deposits | \$ 88,023 | \$ 100,335 |
| Current installments of long-term debt | 583 | 573 |
| Trade accounts payable | 269,590 | 258,791 |
| Accrued expenses | 141,162 | 122,885 |
| Current liabilities from discontinued operations (Note 3) | 5,362 | 6,540 |
| | | |
| Total current liabilities | 504,720 | 489,124 |
| Long-term debt, excluding current installments | 11,664 | 3,250 |
| Deferred income taxes | 48,582 | 43,399 |
| | | |
| Total liabilities | 564,966 | 535,773 |
| | | |
| Shareholders' equity: | | |
| Preferred stock, \$.01 par value; 5,000,000 shares authorized, no shares issued, preferences to be defined when issued | | |
| Common stock, \$.01 par value; 100,000,000 shares authorized, 34,894,380 and 35,581,925 shares issued and outstanding | 349 | 356 |
| Additional paid-in capital | 155,783 | 180,270 |
| Retained earnings | 638,677 | 595,891 |
| | | |
| Total shareholders' equity | 794,809 | 776,517 |
| | | |
| Total liabilities and shareholders' equity | \$1,359,775 | \$1,312,290 |

See accompanying notes to consolidated financial statements.

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**PERFORMANCE FOOD GROUP COMPANY
CONSOLIDATED STATEMENTS OF EARNINGS**

| <i>(In thousands, except per share amounts)</i> | 2006 | 2005 | 2004 |
|---|-------------|-------------|-------------|
| Net sales | \$5,826,732 | \$5,721,372 | \$5,173,078 |
| Cost of goods sold | 5,052,097 | 4,973,966 | 4,496,117 |
| Gross profit | 774,635 | 747,406 | 676,961 |
| Operating expenses | 699,525 | 676,928 | 613,281 |
| Operating profit | 75,110 | 70,478 | 63,680 |
| Other income (expense): | | | |
| Interest income | 2,164 | 4,651 | 340 |
| Interest expense | (1,732) | (3,246) | (8,274) |
| Loss on sale of receivables | (7,351) | (5,156) | (2,421) |
| Loss on redemption of convertible notes (Note 10) | | | (10,127) |
| Other, net | 351 | 365 | 141 |
| Other expense, net | (6,568) | (3,386) | (20,341) |
| Earnings from continuing operations before income taxes | 68,542 | 67,092 | 43,339 |
| Income tax expense from continuing operations | 25,642 | 25,328 | 16,781 |
| Earnings from continuing operations, net of tax | 42,900 | 41,764 | 26,558 |
| Earnings from discontinued operations, net of tax | | 18,499 | 26,000 |
| (Loss) gain on sale of fresh-cut segment, net of tax | (114) | 186,875 | |
| Total (loss) earnings from discontinued operations (Note 3) | (114) | 205,374 | 26,000 |
| Net earnings | \$ 42,786 | \$ 247,138 | \$ 52,558 |
| Weighted average common shares outstanding: | | | |
| Basic | 34,348 | 43,233 | 46,398 |
| Diluted | 34,769 | 43,795 | 47,181 |
| Basic earnings per common share: | | | |
| Continuing operations | \$ 1.25 | \$ 0.97 | \$ 0.57 |
| Discontinued operations | | 4.75 | 0.56 |
| Net earnings | \$ 1.25 | \$ 5.72 | \$ 1.13 |
| Diluted earnings per common share: | | | |
| Continuing operations | \$ 1.23 | \$ 0.95 | \$ 0.56 |
| Discontinued operations | | 4.69 | 0.55 |
| Net earnings | \$ 1.23 | \$ 5.64 | \$ 1.11 |

See accompanying notes to consolidated financial statements.

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**PERFORMANCE FOOD GROUP COMPANY
CONSOLIDATED STATEMENTS OF SHAREHOLDERS EQUITY**

| <i>(Dollar amounts in thousands)</i> | Common Stock | | Additional Paid-in Capital | Deferred Compensation | Retained Earnings | Total Shareholders Equity |
|--|--------------|--------|----------------------------------|--------------------------|----------------------|---------------------------------|
| | Shares | Amount | | | | |
| Balance at January 3, 2004 | 45,862,479 | \$ 459 | \$ 507,161 | \$ | \$ 296,195 | \$ 803,815 |
| Issuance of shares for acquisitions, net of shares returned | 8,904 | | 400 | | | 400 |
| Issuance of shares for equity based awards | 899,277 | 9 | 12,633 | | | 12,642 |
| Tax benefit from exercise of stock options | | | 4,898 | | | 4,898 |
| Net earnings-continuing operations | | | | | 26,558 | 26,558 |
| Net earnings-discontinued operations | | | | | 26,000 | 26,000 |
| Balance at January 1, 2005 | 46,770,660 | 468 | 525,092 | | 348,753 | 874,313 |
| Issuance of shares for equity based awards, net of cancellations | 977,694 | 10 | 18,116 | (5,475) | | 12,651 |
| Stock compensation expense | | | | 999 | | 999 |
| Repurchase and retirement of common stock | (12,166,429) | (122) | (361,596) | | | (361,718) |
| Tax benefit from exercise of stock options | | | 3,134 | | | 3,134 |
| Net earnings-continuing operations | | | | | 41,764 | 41,764 |
| Net earnings-discontinued operations | | | | | 205,374 | 205,374 |
| Balance at December 31, 2005 | 35,581,925 | 356 | 184,746 | (4,476) | 595,891 | 776,517 |
| Issuance of shares for equity based awards, net of cancellations | 772,410 | 8 | 16,309 | (8,092) | | 8,225 |
| Stock compensation expense | | | 2,105 | 2,775 | | 4,880 |
| Repurchase and retirement of common stock | (1,459,955) | (15) | (39,602) | | | (39,617) |
| Tax benefit from exercise of stock options | | | 2,018 | | | 2,018 |
| Net earnings-continuing operations | | | | | 42,900 | 42,900 |

| | | | | | | |
|----------------------------------|--|--|--|--|-------|-------|
| Net loss-discontinued operations | | | | | (114) | (114) |
|----------------------------------|--|--|--|--|-------|-------|

| | | | | | | |
|------------------------------|------------|--------|------------|-----------|------------|------------|
| Balance at December 30, 2006 | 34,894,380 | \$ 349 | \$ 165,576 | \$(9,793) | \$ 638,677 | \$ 794,809 |
|------------------------------|------------|--------|------------|-----------|------------|------------|

See accompanying notes to consolidated financial statements.

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**PERFORMANCE FOOD GROUP COMPANY
CONSOLIDATED STATEMENTS OF CASH FLOWS**

| <i>(Dollar amounts in thousands)</i> | 2006 | 2005 | 2004 |
|---|-------------|-------------|-------------|
| Cash flows from operating activities of continuing operations: | | | |
| Earnings from continuing operations | \$ 42,900 | \$ 41,764 | \$ 26,558 |
| Adjustments to reconcile net earnings to net cash provided by operating activities: | | | |
| Depreciation | 25,557 | 22,818 | 21,370 |
| Amortization | 3,312 | 3,562 | 3,626 |
| Stock compensation expense | 4,880 | 999 | |
| Deferred income taxes | (4,566) | 2,919 | 3,690 |
| Tax benefit from exercise of equity awards | 1,115 | 3,134 | 4,898 |
| Write-off of debt issuance costs | | | 3,801 |
| Other | 952 | 611 | 1,239 |
| Changes in operating assets and liabilities: | | | |
| Increase in accounts receivable | (35,577) | (19,290) | (4,976) |
| Increase in inventories | (5,828) | (16,054) | (57,403) |
| (Increase) decrease in prepaid expenses and other current assets | (663) | 374 | (636) |
| Increase in other assets | (1,933) | (2,843) | (2,992) |
| Increase in trade accounts payable | 10,799 | 30,909 | 31,825 |
| Increase in accrued expenses | 10,643 | 11,661 | 9,295 |
| Change in income taxes payable/receivable, net | 14,082 | (4,394) | 7,315 |
| Net cash provided by operating activities of continuing operations | 65,673 | 76,170 | 47,610 |
| Cash flows from investing activities of continuing operations: | | | |
| Purchases of property, plant and equipment | (53,688) | (77,576) | (40,635) |
| Net cash paid for acquisitions | | (3,917) | (3,086) |
| Proceeds from sale of property, plant and equipment | 462 | 290 | 967 |
| Cash paid for intangibles | | (150) | |
| Net cash used in investing activities of continuing operations | (53,226) | (81,353) | (42,754) |
| Cash flows from financing activities of continuing operations: | | | |
| (Decrease) increase in outstanding checks in excess of deposits | (12,312) | (3,613) | 45,446 |
| Net (payments on) proceeds from revolving credit facility | | (210,000) | 126,771 |
| Principal payments on long-term debt | (576) | (697) | (202,046) |
| Proceeds from employee stock option, incentive and purchase plans | 8,225 | 12,651 | 12,642 |
| Excess tax benefit from exercise of equity awards | 903 | | |
| Cash paid for debt issuance costs | | (864) | (461) |
| Repurchase of common stock | (39,617) | (361,718) | |
| Net cash used in financing activities of continuing operations | (43,377) | (564,241) | (17,648) |
| Net cash used in continuing operations | (30,930) | (569,424) | (12,792) |
| Cash flows from discontinued operations (Note 3): | | | |

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| | | | |
|--|-----------|-----------|-----------|
| Cash provided by operating activities of discontinued operations | 6,670 | 1,121 | 68,364 |
| Cash (used in) provided by investing activities of discontinued operations | (114) | 611,083 | (42,520) |
| Cash provided by financing activities of discontinued operations | | 4,359 | 354 |
| Total cash provided by discontinued operations | 6,556 | 616,563 | 26,198 |
| Net (decrease) increase in cash and cash equivalents | (24,374) | 47,139 | 13,406 |
| Cash and cash equivalents, beginning of year | 99,461 | 52,322 | 38,916 |
| Cash and cash equivalents, end of year | \$ 75,087 | \$ 99,461 | \$ 52,322 |
| Supplemental disclosure of non-cash transaction: | | | |
| Debt assumed through capital lease obligation | \$ 9,000 | | |

See accompanying notes to consolidated financial statements.

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**PERFORMANCE FOOD GROUP COMPANY
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

1. *Description of Business*

Performance Food Group Company and subsidiaries (the Company) market and distribute over 68,000 national and proprietary brand food and non-food products to over 41,000 customers in the foodservice or food away from home industry. The Company services both of the major customer types in the foodservice industry: street foodservice customers, which include independent restaurants, hotels, cafeterias, schools, healthcare facilities and other institutional customers, and multi-unit, or chain customers, which include regional and national family and casual dining and quick-service restaurants.

The Company services these customers through two operating segments: broadline foodservice distribution (Broadline) and customized foodservice distribution (Customized). Broadline markets and distributes more than 65,000 national and proprietary brand food and non-food products to over 41,000 street and chain customers. The Broadline segment has 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. Broadline's customers are typically located within 250 miles of one of the Company's Broadline distribution centers in the Eastern, Midwestern and Southern United States. 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. Customized segment customers can be located up to 1,800 miles away from one of its eight distribution centers, located throughout the United States. The Customized segment also supplies products to some of its customer locations internationally.

The fiscal years ended December 30, 2006, December 31, 2005 and January 1, 2005 are referred to herein as the years 2006, 2005 and 2004, respectively. The Company uses a 52/53-week fiscal year ending on the Saturday closest to December 31. Consequently, the Company periodically has a 53-week fiscal year.

In 2005, the Company sold all its stock in the subsidiaries that comprised its fresh-cut segment to Chiquita Brands International, Inc. (Chiquita). In accordance with Statement of Financial Accounting Standards (SFAS) No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets* (SFAS 144), depreciation and amortization were discontinued beginning February 23, 2005, the day after the Company entered into a definitive agreement to sell its fresh-cut segment. Accordingly, unless otherwise noted, all amounts presented in the accompanying consolidated financial statements, 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*

Principles of Consolidation

The consolidated financial statements include the accounts of Performance Food Group Company and its majority-owned subsidiaries. All significant inter-company balances and transactions have been eliminated.

Use of Estimates

The preparation of the consolidated financial statements in conformity with United States generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the Company's 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 these estimates.

Cash and Cash Equivalents

The Company considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Accounts Receivable

Accounts receivable represent receivables from customers in the ordinary course of business, are recorded at the invoiced amount and do not bear interest. Receivables are recorded net of the allowance for doubtful accounts in the accompanying

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consolidated balance sheets. The Company evaluates the collectibility of its accounts receivable based on a combination of factors. The Company regularly analyzes its significant customer accounts, and when it becomes aware of a specific customer's inability to meet its financial obligations to the Company, such as in the case of bankruptcy filings or deterioration in the customer's operating results or financial position, the Company records a specific reserve for bad debt to reduce the related receivable to the amount it reasonably believes is collectible. The Company also records reserves for bad debt for all other customers based on a variety of factors, including the length of time the receivables are past due, the financial health of the customer, macroeconomic considerations and historical experience. If circumstances related to specific customers change, the Company's estimates of the recoverability of receivables could be further adjusted. At December 30, 2006 and December 31, 2005, the allowance for doubtful accounts was \$7.0 million and \$7.8 million, respectively.

Inventories

The Company's inventories consist primarily of food and non-food products. The Company values inventories at the lower of cost or market using the first-in, first-out (FIFO) method. At December 30, 2006 and December 31, 2005, the Company's inventory balances of \$308.9 million and \$303.1 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 inventory category, inventory age, specifically identified items and overall economic conditions.

Property, Plant and Equipment

Property, plant and equipment are stated at cost. Depreciation of property, plant and equipment, including capital lease assets, is calculated primarily using the straight-line method over the estimated useful lives of the assets, which range from three to 39 years, and is included in operating expenses on the consolidated statements of earnings.

When assets are retired or otherwise disposed of, the costs and related accumulated depreciation are removed from the accounts. The difference between the net book value of the asset and proceeds from disposition is recognized as a gain or loss. Routine maintenance and repairs are charged to expense as incurred, while costs of betterments and renewals are capitalized.

Goodwill and Other Intangible Assets

Goodwill and other intangible assets include the cost of acquired subsidiaries in excess of the fair value of the tangible net assets recorded in conjunction with acquisitions. Other intangible assets include customer relationships, trade names, trademarks, patents and non-compete agreements. SFAS No. 142, *Goodwill and Other Intangible Assets* (SFAS 142), requires the Company to assess goodwill and other intangible assets with indefinite lives for impairment annually, or more often if other circumstances indicate. If impaired, the assets are written down to their fair values. To perform the assessment of goodwill, the Company compared the net assets of its Broadline segment to the discounted expected future operating cash flows of the segment. To perform the assessment of significant other non-amortized intangible assets, the Company compared the book value of the asset to the discounted expected future operating cash flows generated by the specific asset. The Company's Customized segment has no goodwill or other intangible assets. Based on the Company's assessments for 2006, 2005 and 2004, no impairment losses were recorded.

In accordance with SFAS 142, the Company ceased amortizing goodwill and other intangible assets with indefinite lives as of the beginning of 2002. Intangible assets with definite lives are carried at cost less

accumulated amortization. Amortization is computed over the estimated useful lives of the respective assets, generally three to 40 years.

Impairment of Long-Lived Assets

Long-lived assets held and used by the Company are tested for recoverability whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For purposes of evaluating the recoverability of long-lived assets, the Company compares the carrying value of the asset or asset group to the estimated, undiscounted future cash flows expected to be generated by the long-lived asset or asset group, as required by SFAS 144. Based on the Company's assessments for 2006, 2005 and 2004, no impairment losses were recorded.

Insurance Program

The Company maintains a self-insured program covering portions of general and vehicle liability, workers compensation and group medical insurance. The amounts in excess of the self-insured levels are fully insured, subject to certain limitations and exclusions. The Company accrues its estimated liability for these self-insured programs, including an estimate for

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incurred but not reported claims, based on known claims and past claims history. These accruals are included in accrued expenses on the Company's consolidated balance sheets. The provisions for insurance claims include estimates of the frequency and timing of claims occurrences, as well as the ultimate amounts to be paid.

Revenue Recognition

The Company recognizes sales when persuasive evidence of an arrangement exists, the price is fixed and 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.

Cost of Goods Sold

Cost of goods sold includes amounts paid to manufacturers for products sold, plus the cost of transportation necessary to bring the products to the Company's facilities.

Operating Expenses

Operating expenses include warehouse, delivery, selling and administrative expenses, which include occupancy, insurance, depreciation, amortization, salaries and wages and employee benefits expenses.

Vendor Rebates and Other Promotional Incentives

The Company participates in various rebate and promotional incentives with its suppliers, primarily including volume and growth rebates, annual and multi-year incentives and promotional programs. Consideration received under these incentives is generally recorded as a reduction of cost of goods sold. However, in certain circumstances the consideration is recorded as a reduction of costs incurred by the Company. Consideration received may be in the form of cash and/or invoice deductions. Changes in the estimated amount of incentives to be received are treated as changes in estimates and are recognized in the period of change.

Consideration received for incentives that contain volume and growth rebates and annual and multi-year incentives are recorded as a reduction of cost of goods sold. The Company systematically and rationally allocates the consideration for these incentives to each of the underlying transactions that results in progress by the Company toward earning the incentives. If the incentives are not probable and reasonably estimable, the Company records the incentives as the underlying objectives or milestones are achieved. The Company records annual and multi-year incentives when earned, generally over the agreement period. The Company uses current and historical purchasing data, forecasted purchasing volumes and other factors in estimating whether the underlying objectives or milestones will be achieved. Consideration received to promote and sell the supplier's products is typically a reimbursement of costs incurred by the Company and is recorded as a reduction of the Company's costs. If the amount of consideration received from the suppliers exceeds the Company's costs, any excess is recorded as a reduction of cost of goods sold. The Company follows the requirements of Emerging Issues Task Force (EITF) No. 02-16, *Accounting by a Customer (Including a Reseller) for Certain Consideration Received from a Vendor* and EITF No. 03-10, *Application of Issue No. 02-16 by Resellers to Sales incentives offered to Consumers by Manufacturers*.

Stock Based Compensation

Effective January 1, 2006, in accordance with SFAS No. 123(R), *Share-Based Payment* (SFAS 123(R)), the Company began to recognize compensation expense in its consolidated statement of operations for all of its equity awards based on the grant date fair value of the awards. Stock option pricing methods require the input of

highly subjective assumptions, including the expected stock price volatility, expected term of the option and expected forfeitures. Compensation cost is recognized ratably over the vesting period of the related equity award.

Shipping and Handling Fees and Costs

Shipping and handling fees billed to customers are included in net sales. Shipping and handling costs of \$309.8 million, \$308.0 million and \$271.7 million in 2006, 2005 and 2004, respectively, are recorded in operating expenses in the consolidated statements of earnings.

Table of Contents*Income Taxes*

The Company follows SFAS No. 109, *Accounting for Income Taxes*, which requires the use of the asset and liability method of accounting for deferred income taxes. Deferred tax assets and liabilities are recognized for the expected future tax consequences of temporary differences between the tax bases of assets and liabilities and their reported amounts. Future tax benefits, including net operating loss carry-forwards, are recognized to the extent that realization of such benefits is more likely than not.

Reclassifications

Certain prior years' amounts have been reclassified to conform to the current year's presentation.

Recently Issued Accounting Pronouncements

In March 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 156, *Accounting for Servicing of Financial Assets* (SFAS 156). SFAS 156 requires an entity to recognize a servicing asset or liability each time it undertakes an obligation to service a financial asset by entering into a servicing contract in certain situations and requires all separately recognized servicing assets and liabilities to be initially measured at fair value, if practicable. SFAS 156 will be effective for the Company's 2007 fiscal year. The adoption of SFAS 156 will not have a material impact on the Company's consolidated financial position or results of operations.

In July 2006, the FASB issued FASB Interpretation No. 48 (FIN 48), *Accounting for Uncertainty in Income Taxes-an interpretation of FASB Statement 109*. FIN 48 prescribes a comprehensive model for recognizing, measuring, presenting and disclosing in the financial statements tax positions taken or expected to be taken on a tax return, including a decision whether to file or not to file income tax returns in a particular jurisdiction. FIN 48 is effective for fiscal years beginning after December 15, 2006. If there are changes in net assets as a result of the adoption of FIN 48, any adjustments will be accounted for as an adjustment to beginning retained earnings. The Company will adopt the provisions of FIN 48 in its first fiscal quarter of 2007. The Company does not expect the adoption of FIN 48 to have a material impact on the Company's consolidated financial position or results of operations.

3. *Discontinued Operations*

In 2005, the Company sold all its stock in the subsidiaries that comprised its fresh-cut segment to Chiquita for \$860.6 million and recorded a net gain of approximately \$186.8 million, net of approximately \$77.0 million in net tax expense. Of the net gain, approximately \$5.8 million represents post closing adjustments occurring after the initial gain was calculated upon closing of the transaction, primarily related to final tax basis calculations. In accordance with SFAS 144, depreciation and amortization were discontinued beginning February 23, 2005, the day after the Company entered into a definitive agreement to sell its fresh-cut segment. During 2006 the net gain on sale was decreased by \$114,000, as a result of post-closing adjustments related to the working capital finalization and tax return reconciliation.

Earnings from discontinued operations for 2005, excluding gain on sale, were \$18.5 million, net of tax expense of \$14.3 million. In accordance with Emerging Issues Task Force No. 87-24, *Allocation of Interest to Discontinued Operations*, the Company allocated to discontinued operations certain interest expense on debt that was 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 operations to consolidated net assets. Interest expense allocated to discontinued operations in 2005 and 2004 totaled \$3.2 million and \$8.5 million, respectively.

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The assets and liabilities of the discontinued fresh-cut segment reflected on the consolidated balance sheets at December 30, 2006 and December 31, 2005 were comprised of the following:

| <i>(In thousands)</i> | 2006 | 2005 |
|---------------------------|-------------|-------------|
| Assets | | |
| Accounts receivable, net | \$ 610 | \$ 8,229 |
| Deferred income taxes | 1,657 | 1,886 |
| Total assets | \$2,267 | \$10,115 |
| Liabilities | | |
| Other current liabilities | \$5,362 | \$ 6,540 |
| Total liabilities | \$5,362 | \$ 6,540 |

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

| <i>(In thousands)</i> | 2006 | 2005 | 2004 |
|------------------------------|-------------|-------------|-------------|
| Net sales | \$ | \$510,987 | \$975,845 |
| Earnings before income taxes | \$629 | \$295,828 | \$ 41,337 |

4. Business Combinations

During 2005, the Company paid approximately \$2.7 million related to contractual obligations in the purchase agreements for companies it acquired in 2002 and 2004. Also during 2005, 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 2004.

In 2004, the Company paid \$3.1 million and issued approximately 9,000 shares of its common stock, net, valued at approximately \$400,000, related to contractual obligations in the purchase agreements for Carroll County Foods, Inc. (Carroll County Foods), All Kitchens, Inc. (All Kitchens) and other companies acquired. The Company recorded these amounts as additional purchase price, with corresponding increases to goodwill. As discussed above, the Company also accrued approximately \$1.3 million in 2004 related to the settlement of an earnout agreement with the former owners of Middendorf Meat.

Table of Contents**5. Goodwill and Other Intangible Assets**

The following table presents details of the Company's intangible assets as of December 30, 2006 and December 31, 2005:

| <i>(In thousands)</i> | 2006 | | | 2005 | | |
|---|-----------------------|--------------------------|-----------|-----------------------|--------------------------|-----------|
| | Gross Carrying Amount | Accumulated Amortization | Net | Gross Carrying Amount | Accumulated Amortization | Net |
| Intangible assets with definite lives: | | | | | | |
| Customer relationships | \$ 32,859 | \$12,100 | \$ 20,759 | \$ 32,859 | \$ 9,875 | \$ 22,984 |
| Trade names and trademarks | 17,228 | 3,539 | 13,689 | 17,228 | 2,797 | 14,431 |
| Deferred financing costs | 3,570 | 2,332 | 1,238 | 3,573 | 2,008 | 1,565 |
| Non-compete agreements | 3,353 | 3,198 | 155 | 3,353 | 2,854 | 499 |
| Total intangible assets with definite lives | \$ 57,010 | \$21,169 | \$ 35,841 | \$ 57,013 | \$17,534 | \$ 39,479 |
| Intangible assets with indefinite lives: | | | | | | |
| Goodwill* | \$368,535 | \$12,026 | \$356,509 | \$368,623 | \$12,026 | \$356,597 |
| Trade names* | 11,869 | 135 | 11,734 | 11,869 | 135 | 11,734 |
| Total intangible assets with indefinite lives | \$380,404 | \$12,161 | \$368,243 | \$380,492 | \$12,161 | \$368,331 |

*Amortization was recorded before the Company's adoption of SFAS No. 142.

The Company recorded amortization expense of \$3.6 million, \$4.2 million and \$5.0 million in 2006, 2005 and 2004, respectively. These amounts include amortization of deferred financing costs of approximately \$0.3 million, \$0.7 million and \$1.4 million in 2006, 2005 and 2004, respectively. The estimated future amortization expense on intangible assets as of December 30, 2006 is as follows:

(In thousands)

| | |
|------------|----------|
| 2007 | \$ 3,341 |
| 2008 | 3,148 |
| 2009 | 3,146 |
| 2010 | 3,056 |
| 2011 | 2,791 |
| Thereafter | 20,359 |

| | |
|----------------------------|----------|
| Total amortization expense | \$35,841 |
|----------------------------|----------|

The following table presents the changes in the net carrying amount of goodwill, all of which is allocated to the Company's Broadline segment, as defined in Note 19, during 2006 and 2005:

(In thousands)

| | |
|---------------------------------|-----------|
| Balance as of January 1, 2005 | \$354,037 |
| Goodwill acquired | 2,710 |
| Purchase accounting adjustments | (150) |
| Balance as of December 31, 2005 | 356,597 |
| Purchase accounting adjustments | (88) |
| Balance as of December 30, 2006 | \$356,509 |

6. Net Earnings per Common Share

Basic net earnings per common share (EPS) is computed by dividing net earnings available to common shareholders by the weighted-average number of common shares outstanding during the period. Diluted EPS is calculated 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 purchased with the proceeds from the exercise of stock options under the treasury stock method.

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In October 2001, the Company issued \$201.3 million aggregate principal amount of 5¹/₂% subordinated convertible notes due in 2008 (the Convertible Notes). 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 earnings in the numerator and the shares into which the Convertible Notes are convertible are added to the dilutive shares in the denominator. As described in Note 10, the Company redeemed the Convertible Notes on October 18, 2004. For purposes of the calculation of diluted EPS, the Convertible Notes are considered outstanding only until the redemption date. In 2004, the Convertible Notes were anti-dilutive and were not included within the computation of diluted EPS. A reconciliation of the numerators and denominators for the basic and diluted EPS computations is as follows:

| | 2006 | | | 2005 | | | 2004 | | |
|---|--------------|--------|--------------------|--------------|--------|--------------------|--------------|--------|--------------------|
| | Net Earnings | Shares | Per - Share Amount | Net Earnings | Shares | Per - Share Amount | Net Earnings | Shares | Per - Share Amount |
| <i>(In thousands, except per share amounts)</i> | | | | | | | | | |
| Amounts reported for basic EPS | \$42,900 | 34,348 | \$1.25 | \$41,764 | 43,233 | \$0.97 | \$26,558 | 46,398 | \$0.57 |
| Dilutive effect of equity awards | | 421 | | | 562 | | | 783 | |
| Amounts reported for diluted EPS | \$42,900 | 34,769 | \$1.23 | \$41,764 | 43,795 | \$0.95 | \$26,558 | 47,181 | \$0.56 |

Options to purchase approximately 2.1 million shares outstanding at December 30, 2006 were excluded from the computation of diluted EPS because of their anti-dilutive effect on EPS for 2006. The exercise prices of these options ranged from \$28.02 to \$41.15. Options to purchase approximately 1.5 million shares outstanding at December 31, 2005 were excluded from the computation of diluted EPS because of their anti-dilutive effect on EPS for 2005. The exercise prices of these options ranged from \$29.40 to \$41.15. Options to purchase approximately 2.8 million shares outstanding at January 1, 2005 were excluded from the computation of diluted EPS because of their anti-dilutive effect on EPS for 2004. The exercise prices of these options ranged from \$25.18 to \$41.15.

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 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.

The Company received \$78.0 million of proceeds from the sale of the undivided interest in receivables under the Receivables Facility in 2001 and has continued to securitize its accounts receivable. Under the original terms of the Receivables Facility, the amount of the undivided interest in the receivables owned by the financial institution could not exceed \$90.0 million at any one time. In June 2003, the Company increased the amount of the

undivided interest in the receivables that can be owned by the financial institution to \$165.0 million. In July 2003, the Company sold an incremental undivided interest in receivables under the Receivables Facility and received an additional \$32.0 million of proceeds, and in 2004, the Company sold an additional undivided interest in receivables under the Receivables Facility and received an additional \$20.0 million of proceeds. These proceeds were used to repay borrowings under the Company's revolving credit facility and to fund working capital needs. In June 2006, the Company extended the term of the Receivables Facility through June 25, 2007.

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. Total securitized accounts receivable includes the Company's residual interest in accounts receivable (Residual Interest) of \$120.8 million. At December 31, 2005, securitized accounts receivable totaled \$237.1 million, including \$130.0 million sold to the financial institution and derecognized from the consolidated balance sheet and the Residual Interest of \$107.1 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 \$7.4 million, \$5.2 million and \$2.4 million in 2006, 2005 and 2004, respectively, is included in other expense, net, in the 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,

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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 December 30, 2006, the rate under the Receivables Facility was 5.7% per annum.

The key economic assumptions used to measure the Residual Interest at December 30, 2006 were a discount rate of 6% and an estimated life of approximately 1.5 months. At December 30, 2006, 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 position or results of operations.

8. Concentration of Sales and Credit Risk

Two of the Company's Customized segment customers, Outback Steakhouse (Outback) and CRBL Group (Cracker Barrel), account for a significant portion of the Company's consolidated net sales. Net sales to Outback accounted for approximately 13% of consolidated net sales for both 2006 and 2005 and 14% of the Company's consolidated net sales for 2004. Net sales to Cracker Barrel accounted for approximately 11% of consolidated net sales for each of 2006, 2005 and 2004. At both December 30, 2006 and December 31, 2005, amounts receivable from Outback represented 12% of consolidated gross trade accounts receivable. Amounts receivable from Cracker Barrel represented less than 10% of consolidated gross trade accounts receivable at both December 30, 2006 and December 31, 2005.

Financial instruments that potentially expose the Company to concentrations of credit risk consist primarily of trade accounts receivable. The remainder of the Company's customer base includes a large number of individual restaurants, national and regional chain restaurants and franchises and other institutional customers. The credit risk associated with accounts receivable is minimized by the Company's large customer base and ongoing control procedures that monitor customers' creditworthiness.

9. Property, Plant and Equipment

Property, plant and equipment as of December 30, 2006 and December 31, 2005 consisted of the following:

| <i>(In thousands)</i> | 2006 | 2005 | Range of Lives |
|---|-------------|-------------|-----------------------|
| Land | \$ 15,783 | \$ 15,783 | |
| Buildings and building improvements | 232,374 | 216,422 | 15 - 39 years |
| Transportation equipment | 10,144 | 11,667 | 7 - 12 years |
| Warehouse and plant equipment | 50,753 | 49,400 | 3 - 10 years |
| Office equipment, furniture and fixtures | 66,902 | 56,884 | 3 - 10 years |
| Leasehold improvements | 21,478 | 2,870 | Lease term |
| Construction-in-process | 26,910 | 17,961 | |
| | 424,344 | 370,987 | |
| Less: accumulated depreciation and amortization | (132,397) | (115,171) | |

| | | |
|------------------------------------|------------|------------|
| Property, plant and equipment, net | \$ 291,947 | \$ 255,816 |
|------------------------------------|------------|------------|

Table of Contents**10. Long-term Debt**

Long-term debt as of December 30, 2006 and December 31, 2005 consisted of the following:

| <i>(In thousands)</i> | 2006 | 2005 |
|--|-------------|-------------|
| Industrial Revenue Bonds | \$ 2,642 | \$3,138 |
| Other notes payable | 605 | 685 |
| Long-term debt | 3,247 | 3,823 |
| Capital lease obligation | 9,000 | |
| Total long-term debt | 12,247 | 3,823 |
| Less: current installments | (583) | (573) |
| Total long-term debt, excluding current installments | \$ 11,664 | \$3,250 |

Credit Facility

On October 7, 2005, the Company entered into a Second Amended and Restated Credit Agreement (the "Credit Agreement") that provides the Company with up to \$400 million in borrowing capacity, with a \$100 million sublimit for letters of credit, under a senior revolving credit facility that expires on October 7, 2010 (the "Credit Facility"). The Company has the right, without the consent of the lenders, to increase the total amount of the facility to \$600 million. Borrowings under the Credit Agreement bear interest, at the Company's option, at the Base Rate (defined as the greater of the Administrative Agent's prime rate or the overnight federal funds rate plus 0.50%) or LIBOR plus a spread of 0.50% to 1.25%. The Credit Agreement also provides for a fee ranging between 0.125% and 0.225% of unused commitments. The Credit Agreement requires the maintenance of certain financial ratios, as described in the Credit Agreement, and contains customary events of default. At December 30, 2006, the Company had no borrowings outstanding, \$48.1 million of letters of credit outstanding and \$351.9 million available under the Credit Facility, subject to compliance with customary borrowing conditions.

Industrial Revenue Bonds

In 1997 and 1999, prior to its acquisition by the Company, Middendorf Meat issued tax-exempt private activity revenue bonds totaling \$3.7 million and \$2.0 million, respectively. Payments on these bonds are due monthly through June 2011. These bonds bear interest at fixed rates of 6.69% and 7.14% per annum, respectively. At December 30, 2006, the Company had a total of \$2.6 million outstanding under these bonds. Subsequent to the balance sheet date, the Company paid off the remaining principal balance on these bonds. See Note 20 for additional detail.

Convertible Notes

On October 18, 2004, the Company redeemed all of its \$201.3 million aggregate principal amount of 5¹/₂% convertible subordinated notes due in 2008. The Company paid the registered holders of the Convertible Notes the redemption price of 103.1429% of the \$201.3 million principal amount of the Convertible Notes plus accrued

but unpaid interest. The Company recorded a loss on the early redemption of the Convertible Notes of \$10.1 million, which consisted of the redemption premium and the write-off of unamortized debt issuance costs. This loss is included in other expense, net, on the consolidated statement of earnings. The Company funded the redemption of the Convertible Notes with additional borrowings under its then existing revolving credit facility.

Senior Notes

In 1998, the Company issued \$50.0 million of unsecured 6.77% Senior Notes due in May 2010 in a private placement. On June 28, 2005, the Company redeemed all of the Senior Notes with a portion of the proceeds from the sale of its fresh-cut segment.

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Maturities of long-term debt, excluding capital lease obligation, are as follows:

(In thousands)

| | |
|--|---------|
| 2007 | \$ 583 |
| 2008 | 624 |
| 2009 | 667 |
| 2010 | 715 |
| 2011 | 351 |
| Thereafter | 307 |
| Total long-term debt, excluding capital lease obligation | \$3,247 |

Capital Lease Obligation

In 2006, the Company entered into a lease at one of its Broadline operating companies that is being accounted for as a capital lease in accordance with SFAS No. 13, *Accounting for Leases*; as such the present value of the minimum lease payments was recorded as a liability and corresponding asset, which is included in property, plant and equipment on the consolidated balance sheet. The present value of the minimum lease payments at lease inception was \$9.0 million and total interest expense over the life of the lease will be approximately \$20.5 million. As of December 30, 2006, the future minimum lease payments under the capital lease, including interest payments, were \$0.8 million in 2007, \$0.9 million in each of 2008, 2009, 2010 and 2011 and \$23.9 million thereafter, which includes \$9.0 million of principal; as such, the capital lease obligation is classified as a non-current liability at December 30, 2006.

11. Fair Value of Financial Instruments

For both continuing and discontinued operations, the carrying value of cash and cash equivalents, accounts receivable, outstanding checks in excess of deposits, trade accounts payable and accrued expenses approximate their fair values due to the relatively short maturities of those instruments. The carrying value of the Company's floating-rate, long-term debt and the value of its Receivables Facility not recorded on the Company's consolidated balance sheets approximate fair value due to the variable nature of their interest rates. The Company's Residual Interest in the Receivables Facility is recorded 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. Therefore, the carrying amount of the Residual Interest approximates fair value. See Note 7 for more information about the Receivables Facility.

12. Leases

The Company leases various warehouse and office facilities and certain equipment under long-term operating lease agreements that expire at various dates. The Company expenses operating lease costs, including any rent increases, rent holidays or landlord concessions, on a straight-line basis over the lease term. At December 30, 2006, the Company is obligated under non-cancelable operating lease agreements to make future minimum lease payments as follows:

(In thousands)

| | |
|------|-----------|
| 2007 | \$ 34,542 |
| 2008 | 30,388 |

| | |
|------------------------------|-----------|
| 2009 | 26,144 |
| 2010 | 20,237 |
| 2011 | 16,430 |
| Thereafter | 104,614 |
| Total minimum lease payments | \$232,355 |

Total rent expense for operating leases in 2006, 2005 and 2004 was \$48.3 million, \$53.6 million and \$49.8 million, respectively.

The Company has residual value guarantees to its lessors under certain of its operating leases. These leases and related guarantees are discussed in Note 18. These residual value guarantees are not included in the above table of future minimum lease payments.

Table of Contents**13. Income Taxes**

Income tax expense consisted of the following:

| <i>(In thousands)</i> | 2006 | 2005 | 2004 |
|--------------------------|-------------|-------------|-------------|
| Current: | | | |
| Federal | \$25,063 | \$18,674 | \$13,961 |
| State | 5,145 | 3,385 | 1,929 |
| | 30,208 | 22,059 | 15,890 |
| Deferred: | | | |
| Federal | (2,986) | 3,449 | 1,868 |
| State | (1,580) | (180) | (977) |
| | (4,566) | 3,269 | 891 |
| Total income tax expense | \$25,642 | \$25,328 | \$16,781 |

The Company's effective income tax rates for continuing operations for 2006, 2005 and 2004 were 37.4%, 37.8% and 38.7%, respectively. Actual income tax expense differs from the amount computed by applying the applicable U.S. federal corporate income tax rate of 35% to earnings before income taxes as follows:

| <i>(In thousands)</i> | 2006 | 2005 | 2004 |
|---|-------------|-------------|-------------|
| Federal income taxes computed at statutory rate | \$23,990 | \$23,482 | \$15,169 |
| Increase (decrease) in income taxes resulting from: | | | |
| State income taxes, net of federal income tax benefit | 1,879 | 1,820 | 1,228 |
| Non-deductible expenses | 1,198 | 224 | 593 |
| Tax credits | (1,338) | (332) | (379) |
| Change in valuation allowance for deferred tax assets | (216) | 139 | 1,076 |
| Other, net | 129 | (5) | (906) |
| Total income tax expense | \$25,642 | \$25,328 | \$16,781 |

Deferred income taxes are recorded based upon the tax effects of differences between the financial statement and tax bases of assets and liabilities and available tax loss and credit carry-forwards. Temporary differences and carry-forwards that created significant deferred tax assets and liabilities at December 30, 2006 and December 31, 2005, were as follows:

| <i>(In thousands)</i> | 2006 | 2005 |
|---------------------------------|-------------|-------------|
| Deferred tax assets: | | |
| Allowance for doubtful accounts | \$ 2,853 | \$ 2,900 |
| Inventories | 5,673 | 3,198 |
| Accrued employee benefits | 7,951 | 5,142 |
| Self-insurance reserves | 3,868 | 4,766 |
| Deferred income | 2,841 | 1,039 |

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| | | |
|---------------------------------------|----------|----------|
| Net operating loss carry-forwards | 3,816 | 3,347 |
| Tax credit carry-forwards | 247 | 268 |
| Other accrued expenses | 4,665 | 2,750 |
| Total gross deferred tax assets | 31,914 | 23,410 |
| Less: Valuation allowance | (999) | (1,215) |
| Total net deferred tax assets | 30,915 | 22,195 |
| Deferred tax liabilities: | | |
| Property, plant and equipment | 16,704 | 14,870 |
| Basis difference in intangible assets | 35,347 | 30,928 |
| Other | 4,285 | 6,384 |
| Total deferred tax liabilities | 56,336 | 52,182 |
| Net deferred tax liability | \$25,421 | \$29,987 |

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The net deferred tax liability is presented in the December 30, 2006 and December 31, 2005 consolidated balance sheets as follows:

| <i>(In thousands)</i> | 2006 | 2005 |
|------------------------------------|-------------|-------------|
| Current deferred tax asset | \$23,161 | \$13,412 |
| Non-current deferred tax liability | 48,582 | 43,399 |
| | | |
| Net deferred tax liability | \$25,421 | \$29,987 |

The state income tax credit carry-forwards expire in years 2018 through 2021. The net operating loss carry-forwards expire in years 2007 through 2026. In 2006, the Company reduced the valuation allowance against state net operating loss carry-forwards by \$0.2 million. The Company believes that it is more likely than not that the net deferred tax assets will be realized.

14. Shareholders Equity*Shareholders Rights Plan*

In 1997, the Company's board of directors approved a shareholders' rights plan. A dividend of one stock purchase right (a "Right") per common share was distributed to shareholders of record. Common shares issued subsequent to the adoption of the rights plan automatically have Rights attached to them. Under certain circumstances, each Right entitles the shareholders to one-hundredth of one share of preferred stock, par value \$.01 per share, at an initial exercise price of \$50 per Right. The Rights will be exercisable only if a person or group acquires 20% or more of the Company's outstanding common stock. Until the Rights become exercisable, they have no dilutive effect on the Company's net earnings per common share. The Company can redeem the Rights, which are non-voting, at any time prior to the Rights becoming exercisable at a redemption price of \$.001 per Right. The Rights will expire in May 2007, unless redeemed earlier or extended by the Company.

Share Repurchase and Retirement

In 2006, the Company completed purchases under its \$100 million repurchase program announced in August 2005, resulting in the repurchase of approximately 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.

In 2005, with the proceeds generated from the sale of the companies comprising its former fresh-cut segment, the Company repurchased approximately 12.2 million shares of its common stock at prices ranging from \$27.55 to \$30.17, for a total purchase price of \$361.7 million, including transaction costs.

15. Retirement Plans

The Company sponsors the Performance Food Group Company Employee Savings and Stock Ownership Plan (the "Savings Plan"). The Savings Plan consists of three components: a leveraged employee stock ownership plan (the "ESOP"), a defined contribution plan covering substantially all full-time employees (the "401(k) Plan") and a profit sharing plan (the "Profit Sharing Plan").

In 1988, the ESOP acquired approximately 3.6 million shares of the Company's common stock from existing shareholders, financed with assets transferred from predecessor plans and the proceeds of a note payable to a

commercial bank (the ESOP Loan). During 2003, the Company made its final loan payment on the 15-year ESOP Loan and the final allocation of shares were released from the trust. The ESOP will continue to maintain participant balances.

Employees participating in the 401(k) Plan may elect to contribute between 1% and 50% of their qualified compensation, up to a maximum dollar amount as specified by the provisions of the Internal Revenue Code. In 2006, 2005 and 2004, the Company matched employee contributions as follows: 200% of the first 1%, 100% of the next 1% and 50% of the next 2%, for a total match of 4%. A portion of this match, 50% of the first 1% of employee contributions, was made by the Company in shares of its common stock instead of in cash. Matching contributions totaled \$9.1 million, \$8.4 million and \$7.5 million in 2006, 2005 and 2004, respectively. The Company, at the discretion of its Board of Directors, may make additional contributions to the 401(k) Plan. The Company made no discretionary contributions under the 401(k) Plan in 2006, 2005 or 2004.

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In 2004, the Company added the Profit Sharing Plan to the Savings Plan. The Company makes contributions to the Profit Sharing Plan based on the Company's performance. The Profit Sharing Plan's requirements for eligibility, allocation methodology, and vesting requirements are structured similar to the ESOP. The contributions are at the discretion of the Board of Directors and will be made in the Company's common stock. The Company expensed approximately \$0.7 million, \$0.4 million and \$0.6 million in 2006, 2005 and 2004, respectively, associated with this plan.

In 2004, the Company implemented a non-qualified Supplemental Executive Retirement Plan (SERP) covering certain key executives. Under the plan, the Company will make defined contributions to the SERP based on the participant's qualified compensation and the Company's performance. Annually, the Company's Board of Directors determines the appropriate performance threshold. In 2006, 2005 and 2004, the Company recorded expense of \$0.3 million, \$0.5 million and \$0.4 million, respectively, related to the SERP.

16. Stock Based Compensation

Prior to January 1, 2006, the Company accounted for its stock incentive plans and the Performance Food Group Employee Stock Purchase Plan (the Stock Purchase Plan) using the intrinsic value method of accounting provided under the Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB 25), and related interpretations, as permitted by SFAS No. 123, *Accounting for Stock-Based Compensation* (SFAS 123), under which no compensation expense was recognized for stock option grants and issuances of stock pursuant to the Stock Purchase Plan. Share-based compensation was a pro forma disclosure in the financial statement footnotes and continues to be provided for periods prior to fiscal 2006.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of SFAS 123(R) using the modified-prospective transition method. Under this transition method, compensation cost recognized in fiscal 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 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 123(R). Results for prior years have not been restated.

On February 22, 2005, the Compensation Committee of the Company's Board of Directors voted to accelerate the vesting of certain unvested options to purchase approximately 1.8 million shares of the Company's common stock held by certain employees and officers under the 1993 Employee Stock Incentive Plan (the 1993 Plan) and the 2003 Equity Incentive Plan (the 2003 Plan), which had exercise prices greater than the closing price of the Company's common stock on February 22, 2005. These options were accelerated such that upon the adoption of SFAS 123(R), effective January 1, 2006, the Company would not be required to incur any compensation cost related to the accelerated options. The Company believes this decision was in the best interest of the Company and its shareholders. This acceleration resulted in the Company not being required to recognize any compensation cost in its consolidated statement of earnings for the fiscal year ended December 31, 2005, as all stock options that were accelerated had exercise prices that were greater than the market price of the Company's common stock on the date of modification; however, the Company was required to recognize all unvested compensation cost in its pro forma SFAS 123 disclosure in the period of acceleration. The pro forma expense of the acceleration was approximately \$7.3 million, net of tax, which represents all future compensation expense of the accelerated stock options on February 22, 2005, the date of modification.

The Company provides compensation benefits to employees and non-employee directors under several share-based payment arrangements, including the 2003 Plan and the Stock Purchase Plan.

Stock Option and Incentive Plans

In May 2003, the 2003 Plan was approved by shareholders. The 2003 Plan replaced the 1993 Plan and the Directors' Plan, defined below. The 2003 Plan set aside approximately 2,325,000 shares of the Company's common stock, including an aggregate of approximately 125,000 shares carried over from the 1993 Plan and the Directors' Plan, defined below.

The 2003 Plan provides for the award of equity-based incentives to officers, key employees, directors and consultants of the Company. Awards under the 2003 Plan may be in the form of stock options, stock appreciation rights, restricted stock, deferred stock, stock purchase rights or other stock-based awards. Stock options granted under the 2003 Plan have an exercise price equal to the market price of the Company's common stock at the date of grant. The stock options granted under the 2003 Plan typically have terms of 10 years and vest four years from the date of grant. At December 30, 2006, approximately 1,302,000 options were outstanding under the 2003 Plan, approximately 928,000 of which were exercisable. Restricted stock is granted under the 2003 Plan and typically vests four years from the date of grant. Approximately 443,000 and 199,000 shares of

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restricted stock were issued but unvested at December 30, 2006 and December 31, 2005, respectively. No restricted shares were issued prior to 2005. The expense associated with stock options and restricted stock is recognized ratably over the vesting period, less expected forfeitures. Approximately \$1.3 million of stock compensation expense was recognized in the consolidated statement of earnings in 2006 for stock option grants and \$2.8 million and \$1.0 million in 2006 and 2005, respectively, for restricted stock grants. There was no stock compensation expense recognized in the consolidated statement of earnings in 2005 and 2004 for stock option grants, or in 2004 for restricted stock grants. The Company has not made any grants of other stock based awards under the 2003 Plan.

The Company also sponsored the 1993 Outside Directors Stock Option Plan (the *Directors Plan*). A total of 210,000 shares were authorized for issuance under the *Directors Plan*. The *Directors Plan* provided for an initial grant to each non-employee member of the board of directors of 10,500 options and an annual grant of 5,000 options at the current market price on the date of grant. As discussed above, in May 2003 the *Directors Plan* was replaced by the 2003 Plan. Options granted under the *Directors Plan* have an exercise price equal to the market price of the Company's common stock on the grant date, vest one year from the date of grant and have terms of 10 years from the grant date. At December 30, 2006, approximately 101,000 options were outstanding under the *Directors Plan*, all of which were exercisable.

The 1993 Plan provided for the award of up to 5,650,000 shares of equity based incentives to officers, key employees and consultants of the Company. As discussed above, in May 2003 the 1993 Plan was replaced by the 2003 Plan. Stock options granted under the 1993 Plan have an exercise price equal to the market price of the Company's common stock at the grant date. The stock options granted under the 1993 Plan have terms of 10 years and vest four years from the date of grant. At December 30, 2006, approximately 1,460,000 options were outstanding under the 1993 Plan, approximately 1,435,000 of which were exercisable.

A summary of the Company's stock option activity for the year ended December 30, 2006 is as follows:

| <i>(In thousands, except per share data)</i> | Shares | 2006 Weighted Average Exercise Price |
|--|--------|--|
| Outstanding at beginning of period | 3,149 | \$ 26.16 |
| Granted | 207 | 29.99 |
| Exercised | (334) | 12.55 |
| Canceled | (159) | 31.46 |
| Outstanding at end of period | 2,863 | \$ 27.75 |
| Vested or expected to vest at end of period ⁽¹⁾ | 2,843 | \$ 27.74 |
| Options exercisable at end of period | 2,464 | \$ 27.50 |

(1) Total
outstanding less
expected
forfeitures

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At December 30, 2006, the weighted average remaining contractual term for stock options vested or expected to vest and stock options exercisable was 5.5 and 5.1 years, respectively. At December 30, 2006, the aggregate intrinsic value for stock options vested or expected to vest and stock options exercisable was \$9.9 million and \$9.8 million, respectively. Stock options exercised during 2006, 2005 and 2004 had total intrinsic values of \$5.7 million, \$8.8 million and \$13.4 million, respectively.

The following table summarizes information about stock options outstanding at December 30, 2006:

| <i>(Number of shares in thousands)</i> | | | Options Outstanding | | Options Exercisable | | |
|--|---|---------|---------------------------------|-------------------|---------------------------------------|----------|----------|
| | | | Weighted Average | Weighted | Weighted | | |
| Range of Exercise Prices | | | Remaining | Average | Exercisable at Dec. 30, 2006 | Average | |
| | | | Contractual Life in Years | Exercise Price | | Exercise | |
| Shares Unexercised at Dec. 30, 2006 | | | | | Price | | |
| \$9.06 | - | \$18.44 | 593 | 2.46 | \$11.66 | 593 | \$ 11.66 |
| 21.97 | - | 28.48 | 678 | 5.99 | 27.48 | 468 | 27.51 |
| 28.91 | - | 31.82 | 574 | 6.95 | 31.40 | 415 | 31.46 |
| 32.05 | - | 34.58 | 584 | 6.80 | 34.01 | 554 | 34.08 |
| 35.07 | - | 41.15 | 434 | 5.48 | 36.95 | 434 | 36.95 |
| \$9.06 | - | \$41.15 | 2,863 | 5.54 | \$27.75 | 2,464 | \$ 27.50 |

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A summary of the Company's restricted stock activity for the 2006 period is as follows:

| <i>(In thousands, except per share data)</i> | Shares | 2006 Weighted Average Grant Date Fair Value |
|--|--------|---|
| Non-vested at beginning of period | 199 | \$ 28.19 |
| Awarded | 279 | 30.93 |
| Vested | (12) | 28.31 |
| Forfeited | (23) | 29.29 |
| Non-vested at end of period | 443 | \$ 29.85 |

The fair value of each option award is estimated as of the date of grant using a Black-Scholes option pricing model. Expected volatility is based on historical volatility of the Company's common stock. The Company utilizes historical data to estimate expected terms of stock options; separate groups of employees that have similar historical exercise behavior are considered separately for valuation purposes. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant. The weighted average assumptions for the periods indicated were as follows:

| | 2006 | 2005 | 2004 |
|--|---------|---------|---------|
| Dividend yield | 0% | 0% | 0% |
| Expected volatility | 38.3% | 38.1% | 41.6% |
| Risk-free interest rate | 4.9% | 4.0% | 3.2% |
| Expected term (in years) | 8.3 | 8.0 | 6.5 |
| Weighted average grant date fair value of stock options | \$15.99 | \$13.99 | \$15.92 |
| Weighted average grant date fair value of restricted stock | \$30.93 | \$28.18 | |

Employee Stock Purchase Plan

The Company maintains the Stock Purchase Plan, which permits eligible employees to invest, through periodic payroll deductions, in the Company's common stock. For the purchase period from January 15, 2006 to July 14, 2006, and all prior purchase periods, the purchase price was 85% of the lesser of the market price on the last day of the purchase period or average market price, as defined in the plan document. The Company amended the plan effective for the period beginning July 15, 2006 such that the purchase price was equal to 85% of the market price on the last day of the purchase period. The Company is authorized to issue 1,725,000 shares under the Stock Purchase Plan, of which approximately 409,000 shares remained available at December 30, 2006. Purchases under the Stock Purchase Plan are made twice a year on January 15th and July 15th. Shares purchased under the Stock Purchase Plan totaled approximately 177,000, 247,000 and 228,000 during 2006, 2005 and 2004, respectively, and the grant date weighted average fair values of the right to purchase a share of common stock under the Stock Purchase Plan were estimated to be \$4.56, \$5.24 and \$5.43, respectively. As a result of SFAS 123(R), stock compensation expense recognized in the consolidated statement of earnings was approximately \$0.8 million in 2006 for the Stock Purchase Plan. There was no stock compensation cost recognized in the consolidated statements of earnings in 2005 or 2004 for the Stock Purchase Plan.

All Share-Based Compensation Plans

The total share-based compensation cost recognized in operating expenses in the consolidated statements of earnings in 2006 and 2005 was \$4.9 million and \$1.0 million, respectively, which represents the expense associated with our stock options, restricted stock and shares purchased under the Stock Purchase Plan. There was no share-based compensation cost recognized in 2004.

At December 30, 2006, there was approximately \$4.1 million and \$8.3 million of total unrecognized compensation cost related to unvested stock options and restricted stock, respectively, which will be recognized over the remaining weighted average vesting periods of 3.0 and 2.8 years, respectively.

Table of Contents*Pro Forma Net Earnings*

The following table provides pro forma net earnings and earnings per share had the Company applied the fair value method of SFAS 123 for 2005 and 2004:

| <i>(In thousands)</i> | 2005 | 2004 |
|---|-------------|-------------|
| Net earnings, as reported | \$247,138 | \$52,558 |
| Add: Stock-based compensation included in net earnings, net of related tax effects | 621 | 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 2005 related to the accelerated vesting of certain awards) | (10,328) | (8,424) |
| Pro forma net earnings | \$237,431 | \$44,362 |
| Net earnings per common share: | | |
| Basic as reported | \$ 5.72 | \$ 1.13 |
| Basic pro forma | \$ 5.49 | \$ 0.96 |
| Diluted as reported | \$ 5.64 | \$ 1.11 |
| Diluted pro forma | \$ 5.42 | \$ 0.95 |

As a result of adopting SFAS 123(R) on January 1, 2006, the Company's earnings before income taxes and net earnings for 2006 were \$2.1 million and \$1.3 million lower, respectively, and basic EPS and diluted EPS for 2006 were both \$0.04 lower than if the Company had continued to account for share-based compensation under APB 25.

The adoption of SFAS 123(R) resulted in a modification of the treasury stock method calculation utilized to compute the dilutive effect of stock options. Under SFAS 123(R), the amount of compensation cost attributed to future services and not yet recognized and the amount of tax benefits that would be credited to shareholders equity assuming exercise of outstanding stock options is included in the determination of proceeds under the treasury stock method.

Prior to the adoption of SFAS 123(R), in accordance with SFAS No. 95, *Statement of Cash Flows*, the Company presented all tax benefits resulting from the exercise of stock options as operating cash flows in the consolidated statements of cash flows. In accordance with the requirements of SFAS 123(R), the Company began presenting the tax benefit in excess of the tax benefit related to the compensation cost incurred as financing activities in the consolidated statements of cash flows during 2006.

17. Supplemental Cash Flow Information

Supplemental disclosures of cash flow information for 2006, 2005 and 2004 are as follows:

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| <i>(In thousands)</i> | 2006 | 2005 | 2004 |
|--|-------------|-------------|-------------|
| Cash paid during the year for: | | | |
| Interest continuing operations | \$ 1,010 | \$ 3,209 | \$ 8,718 |
| Interest discontinued operations | \$ | \$ 3,551 | \$ 8,515 |
| Income taxes, net of refunds continuing operations | \$14,284 | \$ 23,829 | \$11,712 |
| Income taxes, net of refunds discontinued operations | \$ 14 | \$163,332 | \$ 6,078 |
| Effects of companies acquired: | | | |
| Fair value of assets acquired | \$ | \$ 3,917 | \$ 4,650 |
| Fair value of liabilities assumed | | | (1,164) |
| Stock issued for acquisitions, net | | | (400) |
| Net cash paid for acquisitions | \$ | \$ 3,917 | \$ 3,086 |

Table of Contents**18. *Commitments and Contingencies***

The Company's Broadline and Customized segments had outstanding contracts and purchase orders for capital projects totaling \$14.6 million and \$1.4 million, respectively, at December 30, 2006. Amounts due under these contracts were not included on the Company's consolidated balance sheet as of December 30, 2006, 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 two to eight years and expiration dates ranging from 2007 to 2013. As of December 30, 2006, the undiscounted maximum amount of potential future payments under the Company's guarantees totaled \$7.6 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. (FIN) 45, *Guarantor's Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others*, the Company has recorded \$80,000 of the \$7.6 million of potential future guarantee payments on its consolidated balance sheet as of December 30, 2006.

In connection with the sale of its former fresh-cut segment, the Company remained obligated on a guarantee of the future lease payments of one of the fresh-cut segment facilities that was sold to Chiquita. The Company will be required to perform under the guarantee if Chiquita defaults on its lease obligations. In connection with the sale of the former fresh-cut segment to Chiquita, Chiquita assumed the Company's obligation under the guarantee and agreed to indemnify the Company for any losses the Company suffers as a result of Chiquita's failure to perform its assumed obligations. Consistent with the requirements of FIN 45, the Company has recorded an estimated liability of \$2.5 million in its consolidated financial statements as of December 30, 2006. Subsequent to the balance sheet date, the Company entered into a substitution of collateral and sale-leaseback transaction involving the property subject to the guarantee and one of the Company's Broadline operating company's facilities. As a result, the Company was released from the guarantee. For additional detail, see Note 20.

In November 2003, certain of the former shareholders of PFG Empire Seafood, a wholly owned subsidiary which the Company acquired in 2001, brought a lawsuit against the Company in the Circuit Court, Eleventh Judicial Circuit in Dade County, seeking unspecified damages and alleging breach of their employment and earnout agreements. Additionally, the former shareholders seek to have their non-compete agreements declared invalid. The Company intends to vigorously defend itself and has asserted counterclaims against the former shareholders. The Company currently believes that this lawsuit will not have a material adverse effect on the Company's consolidated financial condition or results of operations.

From time to time, the Company is involved in various legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of such proceedings and litigation currently pending will not have a material adverse effect on the Company's consolidated financial condition or results of operations.

19. Segment Information

The Company markets and distributes food and non-food products to customers in the foodservice, or food-away-from-home, industry. The Company has aggregated its subsidiaries into two segments, as defined by SFAS No. 131, *Disclosures about Segments of an Enterprise and Related Information* (SFAS 131) based upon their respective economic characteristics. The Broadline segment markets and distributes food and non-food products to both street and chain customers. The Customized segment services family and casual dining chain restaurants nationwide and internationally. As discussed in Note 3, the sale of the Company's fresh-cut segment was completed in 2005 and, as such, it is accounted for as a discontinued operation. The accounting policies of the segments are the same as those described in Note 2. Inter-segment sales represent sales between the segments, which are eliminated in consolidation.

Effective January 1, 2006, the Company realigned its management reporting structure. As a result, certain functions and their related costs, assets and liabilities previously reported under the Corporate segment are now reported under the Broadline segment in accordance with SFAS 131. The Company has reclassified certain prior year amounts to conform with the current year segment presentation, which resulted in reclassifications of operating expenses from the Corporate segment to the

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Broadline segment of approximately \$5.1 million and \$4.3 million in 2005 and 2004, respectively, which are reflected in the segment tables below.

| <i>(In thousands)</i> | Broadline | Customized | Corporate & Intersegment | Consolidated |
|------------------------------------|-----------------------|-------------------|---|---------------------|
| 2006 | | | | |
| Net external sales | \$3,478,206 | \$2,348,526 | \$ | \$5,826,732 |
| Inter-segment sales | 527 | 212 | (739) | |
| <i>Total sales</i> | <i>3,478,733</i> | <i>2,348,738</i> | <i>(739)</i> | <i>5,826,732</i> |
| Operating profit | 71,619 | 30,736 | (27,245) | 75,110 |
| Interest expense (income) | 15,436 | 5,864 | (19,568) | 1,732 |
| Loss (gain) on sale of receivables | 9,937 | 3,038 | (5,624) | 7,351 |
| Depreciation | 18,969 | 6,294 | 294 | 25,557 |
| Amortization | 3,312 | | | 3,312 |
| Capital expenditures | 48,206 | 5,172 | 310 | 53,688 |
| 2005 | | | | |
| | <i>(Reclassified)</i> | | <i>(Reclassified)</i> | |
| Net external sales | \$3,480,793 | \$2,240,579 | \$ | \$5,721,372 |
| Inter-segment sales | 653 | 223 | (876) | |
| <i>Total sales</i> | <i>3,481,446</i> | <i>2,240,802</i> | <i>(876)</i> | <i>5,721,372</i> |
| Operating profit | 71,723 | 24,981 | (26,226) | 70,478 |
| Interest expense (income) | 16,998 | 2,963 | (16,715) | 3,246 |
| Loss (gain) on sale of receivables | 7,832 | 2,849 | (5,525) | 5,156 |
| Depreciation | 17,341 | 5,174 | 303 | 22,818 |
| Amortization | 3,562 | | | 3,562 |
| Capital expenditures | 29,212 | 48,252 | 112 | 77,576 |
| 2004 | | | | |
| | <i>(Reclassified)</i> | | <i>(Reclassified)</i> | |
| Net external sales | \$3,120,500 | \$2,052,578 | \$ | \$5,173,078 |
| Inter-segment sales | 806 | 302 | (1,108) | |
| <i>Total sales</i> | <i>3,121,306</i> | <i>2,052,880</i> | <i>(1,108)</i> | <i>5,173,078</i> |
| Operating profit | 65,877 | 21,538 | (23,735) | 63,680 |
| Interest expense (income) | 12,366 | 747 | (4,839) | 8,274 |
| Loss (gain) on sale of receivables | 7,845 | 2,596 | (8,020) | 2,421 |
| Depreciation | 16,728 | 4,355 | 287 | 21,370 |
| Amortization | 3,626 | | | 3,626 |
| Capital expenditures | 19,053 | 20,770 | 812 | 40,635 |

Total assets by reportable segment and reconciliation to the consolidated balance sheets are as follows:

| <i>(In thousands)</i> | 2006 | 2005 |
|--------------------------|-------------|-------------------------------------|
| Broadline | \$ 901,752 | <i>(Reclassified)</i> \$ 858,211 |
| Customized | 261,975 | 250,397 |
| Corporate & Intersegment | 193,781 | 193,567 |

| | | |
|-------------------------|-------------|-------------|
| Discontinued operations | 2,267 | 10,115 |
| Total assets | \$1,359,775 | \$1,312,290 |

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The sales mix for the Company's principal product and service categories is as follows (unaudited):

| <i>(In thousands)</i> | 2006 | 2005 | 2004 |
|---|--------------------|--------------------|--------------------|
| Center-of-the-plate | \$2,393,103 | \$2,393,658 | \$2,171,304 |
| Canned and dry groceries | 1,040,222 | 1,006,854 | 911,691 |
| Frozen foods | 1,003,986 | 981,013 | 864,829 |
| Refrigerated and dairy products | 576,892 | 576,908 | 537,363 |
| Paper products and cleaning supplies | 432,547 | 417,375 | 360,590 |
| Produce | 223,954 | 198,337 | 184,255 |
| Procurement, merchandising and other services | 116,801 | 107,115 | 93,130 |
| Equipment and supplies | 39,227 | 40,112 | 49,916 |
| Total | \$5,826,732 | \$5,721,372 | \$5,173,078 |

20. Subsequent Events*Sale-leaseback Transaction*

In January 2007, the Company entered into a substitution of collateral and sale-leaseback transaction involving one of its Broadline operating facilities and one of the Company's former fresh-cut segment operating facilities, as discussed in Note 18. This transaction resulted in the Company being released from a guarantee of future lease payments on the former fresh-cut segment facility that was sold to Chiquita, as discussed in Note 18. The Company's Broadline operating facility was sold to a third party and leased back to the Company pursuant to a lease agreement with an initial term expiring in 2026. This transaction resulted in a gain of approximately \$2.9 million. Included within the gain is the \$2.5 million liability that was established in connection with the Company's guarantee. 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.

Bond Repayment

In January 2007, the Company paid off the remaining principal balance outstanding on its Middendorf Meat tax-exempt private activity revenue bonds. See Note 10 for further description of these bonds.

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Report of Independent Registered Public Accounting Firm

The Board of Directors

Performance Food Group Company:

Under date of February 26, 2007, we reported on the consolidated balance sheets of Performance Food Group Company and subsidiaries (the Company) as of December 30, 2006 and December 31, 2005, and the related consolidated statements of earnings, shareholders' equity and cash flows for each of the fiscal years in the three-year period ended December 30, 2006, which report appears in the December 30, 2006 annual report on Form 10-K of Performance Food Group Company. In connection with our audits of the aforementioned consolidated financial statements, we also audited the related consolidated financial statement schedule included herein. The financial statement schedule is the responsibility of the Company's management. Our responsibility is to express an opinion on the financial statement schedule based on our audits.

In our opinion, the financial statement schedule, when considered in relation to the basic consolidated financial statements taken as a whole, presents fairly, in all material aspects, the information set forth therein.

/s/ KPMG LLP

Richmond, Virginia
February 26, 2007

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VALUATION AND QUALIFYING ACCOUNTS**

| <i>(In thousands)</i> | Beginning Balance | Additions ⁽¹⁾ | Deductions | Ending Balance |
|--|----------------------|--------------------------|------------|-------------------|
| Allowance for Doubtful Accounts | | | | |
| January 1, 2005 | \$ 5,956 | \$7,793 | \$5,067 | \$ 8,682 |
| December 31, 2005 | 8,682 | 8,415 | 9,278 | 7,819 |
| December 30, 2006 | 7,819 | 5,558 | 6,413 | 6,964 |

(1) Includes
provisions and
recoveries

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