

PERFORMANCE FOOD GROUP CO

Form 10-Q

August 11, 2005

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q
QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGES
ACT OF 1934
FOR THE QUARTERLY PERIOD ENDED JULY 2, 2005
Commission File No.: 0-22192
PERFORMANCE FOOD GROUP COMPANY
(Exact name of registrant as specified in its charter)**

Tennessee
(State or other jurisdiction of
incorporation of organization)

54-0402940
(I.R.S. employer identification number)

12500 West Creek Parkway
Richmond, Virginia
(Address of Principle Executive Offices)

23238
(Zip Code)

(804) 484-7700

Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities and Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the Registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

p Yes No

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

p Yes No

As of August 8, 2005, 47,509,368, shares of the issuer's common stock were outstanding.

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders

Performance Food Group Company:

We have reviewed the accompanying condensed consolidated balance sheet of Performance Food Group Company and subsidiaries (the Company) as of July 2, 2005, the related condensed consolidated statements of earnings for the three-months and six-month periods ended July 2, 2005 and July 3, 2004 and the condensed consolidated statements of cash flows for the six-month periods ended July 2, 2005 and July 3, 2004. These condensed consolidated financial statements are the responsibility of the Company's management.

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

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

We have previously audited, in accordance with standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheet of Performance Food Group Company and subsidiaries as of January 1, 2005, and the related consolidated statements of earnings, shareholders' equity and cash flows for the year then ended (not presented herein); and in our report dated March 15, 2005, we expressed an unqualified opinion on those consolidated financial statements. In our opinion, the information set forth in the accompanying condensed consolidated balance sheet as of January 1, 2005 is fairly stated, in all material respects, in relation to the consolidated balance sheet from which it has been derived.

/s/ KPMG LLP

Richmond, Virginia
August 5, 2005

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PART I FINANCIAL INFORMATION

Item 1. Financial Statements.**PERFORMANCE FOOD GROUP COMPANY AND SUBSIDIARIES***Condensed Consolidated Balance Sheets (Unaudited)*

(In thousands)	July 2, 2005	January 1, 2005
Assets		
Current assets:		
Cash and cash equivalents	\$ 647,058	\$ 52,322
Accounts receivable, net, including retained interest in securitized receivables	179,921	171,191
Inventories	280,822	287,019
Other current assets	22,376	25,463
Current assets from discontinued operations (Note 3)	12,488	109,924
Total current assets	1,142,665	645,919
Property, plant and equipment, net	228,301	201,248
Goodwill, net	353,963	354,038
Other intangible assets, net	52,288	54,471
Other assets	14,883	13,502
Non-current assets from discontinued operations (Note 3)		558,587
Total assets	\$1,792,100	\$1,827,765
Liabilities and Shareholders' Equity		
Current liabilities:		
Outstanding checks in excess of deposits	\$ 54,840	\$ 103,948
Current installments of long-term debt	596	661
Trade accounts payable	287,778	227,882
Income taxes payable	162,880	
Other current liabilities	126,238	112,580
Current liabilities from discontinued operations (Note 3)	16,425	116,024
Total current liabilities	648,757	561,095
Long-term debt, excluding current installments	3,536	263,859
Deferred income taxes	43,134	40,775
Non-current liabilities from discontinued operations (Note 3)		87,723
Total liabilities	695,427	953,452
Shareholders' equity	1,096,673	874,313
Total liabilities and shareholders' equity	\$1,792,100	\$1,827,765

See accompanying notes to unaudited condensed consolidated financial statements.

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

(In thousands, except per share amounts)	Three Months Ended		Six Months Ended	
	July 2, 2005	July 3, 2004	July 2, 2005	July 3, 2004
Net sales	\$ 1,456,735	\$ 1,292,863	\$ 2,879,542	\$ 2,517,400
Cost of goods sold	1,267,343	1,123,321	2,510,234	2,189,805
Gross profit	189,392	169,542	369,308	327,595
Operating expenses	167,441	150,250	337,931	302,591
Operating profit	21,951	19,292	31,377	25,004
Other income (expense), net:				
Interest expense	(1,540)	(2,941)	(2,513)	(4,923)
Loss on sale of receivables	(1,235)	(506)	(2,241)	(974)
Other, net	641	230	805	432
Other expense, net	(2,134)	(3,217)	(3,949)	(5,465)
Earnings from continuing operations before income taxes	19,817	16,075	27,428	19,539
Income tax expense from continuing operations	7,571	6,382	10,499	7,689
Earnings from continuing operations, net of tax	12,246	9,693	16,929	11,850
Earnings from discontinued operations, net of tax	10,591	9,103	19,603	14,422
Gain on sale of fresh-cut segment, net of tax	180,958		180,958	
Total earnings from discontinued operations, net of tax	191,549	9,103	200,561	14,422
Net earnings	\$ 203,795	\$ 18,796	\$ 217,490	\$ 26,272
Weighted average common shares outstanding:				
Basic	46,955	46,344	46,913	46,161
Diluted	47,608	53,325	47,505	47,166
Basic earnings per common share:				
Continuing operations	\$ 0.26	\$ 0.21	\$ 0.36	\$ 0.26
Discontinued operations	0.23	0.20	0.42	0.31
Gain on sale of fresh-cut segment	3.85		3.86	
Total earnings from discontinued operations	4.08	0.20	4.28	0.31
Net earnings	\$ 4.34	\$ 0.41	\$ 4.64	\$ 0.57

Diluted earnings per common share:

Continuing operations	\$ 0.26	\$ 0.21	\$ 0.36	\$ 0.25
Discontinued operations	0.22	0.18	0.41	0.31
Gain on sale of fresh-cut segment	3.80		3.81	
Total earnings from discontinued operations	4.02	0.18	4.22	0.31
Net earnings	\$ 4.28	\$ 0.39	\$ 4.58	\$ 0.56

See accompanying notes to unaudited condensed consolidated financial statements.

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

(In thousands)	Six Months Ended	
	July 2, 2005	July 3, 2004
Cash flows from operating activities:		
Net earnings	\$ 217,490	\$ 26,272
Earnings from discontinued operations, net of tax	(19,603)	(14,422)
Gain on sale of fresh-cut segment, net of tax	(180,958)	
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	11,223	10,352
Amortization	1,811	1,808
Tax benefit on exercise of stock options	476	3,347
Restricted stock expense	314	
Other	364	728
Change in operating assets and liabilities, net	87,973	19,185
Net cash provided by operating activities from continuing operations	119,090	47,270
Cash flows from investing activities:		
Purchases of property, plant and equipment	(38,359)	(12,624)
Net cash paid for acquisitions	(1,255)	(1,061)
Proceeds from sale of property, plant and equipment	92	145
Net cash used in investing activities from continuing operations	(39,522)	(13,540)
Cash flows from financing activities:		
(Decrease) increase in outstanding checks in excess of deposits	(49,108)	13,931
Net payments on revolving credit facility	(210,000)	(63,229)
Principal payments on long-term debt	(388)	(299)
Cash paid for debt issuance costs		(15)
Employee stock option, incentive and purchase plans	4,078	6,832
Net cash used in financing activities from continuing operations	(255,418)	(42,780)
Cash provided by discontinued operations	770,586	25,257
Net increase in cash and cash equivalents	594,736	16,207
Cash and cash equivalents, beginning of period	52,322	38,916
Cash and cash equivalents, end of period	\$ 647,058	\$ 55,123

See accompanying notes to unaudited condensed consolidated financial statements.

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

1. Basis of Presentation

The accompanying condensed consolidated financial statements of Performance Food Group Company and subsidiaries (the Company) as of July 2, 2005, and for the three months and six months ended July 2, 2005 and July 3, 2004, are unaudited. The unaudited January 1, 2005 condensed consolidated balance sheet was derived from the audited consolidated balance sheet included in the Company's latest Annual Report on Form 10-K. The unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial reporting, and in accordance with Rule 10-01 of Regulation S-X.

In the opinion of management, the unaudited condensed consolidated financial statements contained in this report reflect all adjustments, consisting of only normal recurring accruals, which are necessary for a fair presentation of the financial position and the results of operations for the interim periods presented. The results of operations for any interim period are not necessarily indicative of results for the full year. References in this Form 10-Q to the 2005 and 2004 quarters and periods refer to the fiscal quarters and six-months ended July 2, 2005 and July 3, 2004, respectively. These unaudited condensed consolidated financial statements, note disclosures and other information should be read in conjunction with the consolidated financial statements and notes thereto included in the Company's latest Annual Report on Form 10-K.

On June 28, 2005, the Company completed the sale of all its stock in the subsidiaries that comprised its fresh-cut segment to Chiquita Brands International, Inc. for \$860.6 million and recorded a net gain of approximately \$181.0 million, subject to final working capital adjustments. In accordance with 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 the Company entered into a definitive agreement to sell its fresh-cut segment. As such, unless otherwise noted, all amounts presented in the accompanying condensed consolidated financial statements, including all note disclosures, contain only information related to the Company's continuing operations. See Note 3 for additional discontinued operations disclosures.

2. Summary of Significant Accounting Policies

Use of Estimates

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

Inventories

The Company's inventories consist of food and non-food products. The Company primarily values inventories at the lower of cost or market using principally the first-in, first-out (FIFO) method. At July 2, 2005 and January 1, 2005, the Company's inventory balances of \$280.8 million and \$287.0 million, respectively, consisted primarily of finished goods.

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

Sales returns are recorded as reductions of sales.

Stock-Based Compensation

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

(In thousands)	2005 Quarter	2004 Quarter	2005 Period	2004 Period
Net earnings, as reported	\$203,795	\$ 18,796	\$217,490	\$26,272
Add: Stock-based compensation included in current period net earnings, net of related tax effects				228
Deduct: Total stock-based employee compensation expense determined under the fair value based method for all awards, net of related tax effects (includes approximately \$7.3 million in the 2005 period related to the accelerated vesting of certain awards)	(470)	(1,931)	(8,907)	(3,741)
Pro forma net earnings	\$203,325	\$ 16,865	\$208,583	\$22,759
Net earnings per common share:				
Basic as reported	\$ 4.34	\$ 0.41	\$ 4.64	\$ 0.57
Basic pro forma	\$ 4.33	\$ 0.36	\$ 4.45	\$ 0.49
Diluted as reported	\$ 4.28	\$ 0.39	\$ 4.58	\$ 0.56
Diluted pro forma	\$ 4.27	\$ 0.35	\$ 4.41	\$ 0.49

Reclassifications

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

Recently Issued Accounting Pronouncements

In December 2004, the FASB issued SFAS No. 123 (revised 2004), *Share-Based Payment* (SFAS No. 123R). SFAS No. 123R supersedes APB Opinion No. 25 and its related implementation guidance. SFAS No. 123R establishes standards for the accounting for transactions in which an entity issues equity instruments for goods or services. It also addresses transactions in which an entity incurs liabilities in exchange for goods or services that are based on the fair value of the entity's equity instruments or that may be settled by the issuance of those equity instruments. SFAS No. 123R requires that the cost resulting from all share-based payment transactions be recognized in the financial statements. SFAS No. 123R establishes fair value as the measurement objective in accounting for share-based payment arrangements and requires all entities to apply a fair-value-based measurement method in accounting for share-based payment transactions with employees except for equity instruments held by employee share ownership

plans. The Company will adopt the modified prospective application provisions of SFAS No. 123R in its first fiscal quarter of 2006. Based on the underlying variables in the calculation, the Company has not determined the final impact,

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however, the Company anticipates the adoption of this standard will have a material impact on its results of operations.

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

3. Discontinued Operations

On June 28, 2005, the Company completed the sale of all its stock in the subsidiaries that comprised its fresh-cut segment to Chiquita Brands International, Inc. for \$860.6 million and recorded a net gain of approximately \$181.0 million, net of approximately \$80.7 million in net tax expense, subject to final working capital adjustments. The tax expense is comprised of approximately \$151.3 million in current tax expense, partially offset by approximately \$70.6 million in deferred tax benefit. In accordance with 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 the Company entered into a definitive agreement to sell its fresh-cut segment. In accordance with EITF No. 87-24, *Allocation of Interest to Discontinued Operations*, the Company allocated to discontinued operations certain interest expense on debt that is required to be repaid as a result of the sale and a portion of interest expense associated with the Company's revolving credit facility and subordinated convertible notes. The allocation percentage was calculated based on the ratio of net assets of the discontinued operation to consolidated net assets. Interest expense allocated to discontinued operations totaled \$1.3 million and \$1.8 million for the 2005 and 2004 quarters and \$3.2 million and \$4.5 million for the 2005 and 2004 periods, respectively. The assets and liabilities of the discontinued fresh-cut segment reflected on the consolidated balance sheets at July 2, 2005 and January 1, 2005 were comprised of the following:

(In thousands)	July 2, 2005	January 1, 2005
Assets		
Accounts receivable, net	\$ 10,601	\$ 74,563
Inventories		27,816
Other current assets	1,887	7,545
Total current assets	12,488	109,924
Property, plant and equipment, net		193,453
Goodwill, net		232,473
Other intangible assets, net		130,399
Other assets		2,262
Total non-current assets		558,587
Total assets	\$ 12,488	\$ 668,511
Liabilities		
Outstanding checks in excess of deposits	\$	\$ 24,131
Current installments of long-term debt		275
Trade accounts payable		39,775
Other current liabilities	16,425	51,843

Total current liabilities	16,425	116,024
Long-term Debt		14,725
Deferred income taxes		72,998
Total non-current liabilities		87,723
Total liabilities	\$16,425	\$ 203,747

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

(In thousands)	Three Months Ended		Six Months Ended	
	July 2, 2005	July 3, 2004	July 2, 2005	July 3, 2004
Net sales	\$266,679	\$262,859	\$510,987	\$503,389
Earnings before income taxes	\$279,793	\$ 14,310	\$294,401	\$ 22,904
Income tax expense	\$ 88,243	\$ 5,207	\$ 93,840	\$ 8,482

4. Business Combinations

During the 2005 period, the Company paid approximately \$1.3 million related to the settlement of an earnout agreement with the former owners of Middendorf Meat Company (Middendorf Meat). This amount was accrued, with a corresponding increase to goodwill, in the Company's 2004 fourth quarter. During the 2004 period, the Company paid \$1.1 million and issued approximately 22,000 shares of its common stock, valued at approximately \$750,000, primarily related to certain contractual obligations in the purchase agreement in connection with a 2000 acquisition.

5. Earnings Per Common Share

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

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

(In thousands, except per share amounts)	2005 Quarter			2004 Quarter		
	Earnings	Shares	Per-Share Amount	Earnings	Shares	Per-Share Amount
Basic EPS continuing operations	\$12,246	46,955	\$0.26	\$ 9,693	46,344	\$0.21
Dilutive effect of stock options		653			873	
Dilutive effect of Convertible Notes				1,306	6,108	
Diluted EPS continuing operations	\$12,246	47,608	\$0.26	\$10,999	53,325	\$0.21

Options to purchase approximately 2.8 million shares that were outstanding at July 2, 2005 were excluded from the computation of diluted shares because of their anti-dilutive effect on EPS for the 2005 quarter. The

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exercise price of these options ranged from \$28.02 to \$41.15. Options to purchase approximately 1.4 million shares that were outstanding at July 3, 2004 were excluded from the computation of diluted shares because of their anti-dilutive effect on EPS for the 2004 quarter. The exercise prices of these options ranged from \$33.00 to \$41.15.

(In thousands, except per share amounts)	2005 Period			2004 Period		
	Earnings	Shares	Per-Share Amount	Earnings	Shares	Per-Share Amount
Basic EPS continuing operations	\$16,929	46,913	\$0.36	\$11,850	46,161	\$ 0.26
Dilutive effect of stock options		592			1,005	(0.01)
Diluted EPS continuing operations	\$16,929	47,505	\$0.36	\$11,850	47,166	\$ 0.25

6. Receivables Facility

In July 2001, the Company entered into a receivables purchase facility (the Receivable Facility), under which PFG Receivables Corporation, a wholly owned, special-purpose subsidiary, sold an undivided interest in certain of the Company's trade receivables. PFG Receivables Corporation was formed for the sole purpose of buying receivables generated by certain of the Company's operating units and selling an undivided interest in those receivables to a financial institution. Under the Receivables Facility, certain of the Company's operating units sell a portion of their accounts receivable to PFG Receivables Corporation, which in turn, subject to certain conditions, may from time to time sell an undivided interest in these receivables to a financial institution. The Company's operating units continue to service the receivables on behalf of the financial institution at estimated market rates. Accordingly, the Company has not recognized a servicing asset or liability. In June 2005, the Company extended the term of the Receivables Facility through June 26, 2006.

At July 2, 2005, securitized accounts receivable totaled \$232.0 million, including \$130.0 million sold to the financial institution and derecognized from the condensed consolidated balance sheet. Total securitized accounts receivable includes the Company's residual interest in accounts receivable (Residual Interest) of \$102.0 million. At January 1, 2005, securitized accounts receivable totaled \$225.6 million, including \$130.0 million sold to the financial institution and derecognized from the consolidated balance sheet, and including Residual Interest of \$95.6 million. The Residual Interest represents the Company's retained interest in receivables held by PFG Receivables Corporation. The Residual Interest was measured using the estimated discounted cash flows of the underlying accounts receivable, based on estimated collections and a discount rate approximately equivalent to the Company's incremental borrowing rate. The loss on sale of the undivided interest in receivables of \$1.2 million and \$506,000 in the 2005 and 2004 quarters, respectively, and \$2.2 million and \$974,000 in the 2005 and 2004 periods, respectively, is included in other expense, net, in the condensed consolidated statements of earnings and represents the Company's cost of securitizing those receivables with the financial institution.

The Company records the sale of the undivided interest in accounts receivable to the financial institution in accordance with SFAS No. 140, *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Accordingly, at the time the undivided interest in receivables is sold, the receivables are removed from the Company's consolidated balance sheet. The Company records a loss on the sale of the undivided interest in these receivables, which includes a discount, based upon the receivables' credit quality and a financing cost for the financial institution, based upon a 30-day commercial paper rate. At July 2, 2005, the rate under the Receivables Facility was 3.62% per annum.

The key economic assumptions used to measure the Residual Interest at July 2, 2005 were a discount rate of 4.28% and an estimated life of approximately 1.5 months. At July 2, 2005, an immediate adverse change in the discount rate and estimated life of 10% and 20%, with other factors remaining constant, would reduce the fair value of the Residual Interest with a corresponding increase in the loss on sale of receivables, but would not have a material impact on the Company's consolidated financial condition or results of operations.

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

(In thousands)	As of July 2, 2005			As of January 1, 2005		
	Gross Carrying Amount	Accumulated Amortization	Net	Gross Carrying Amount	Accumulated Amortization	Net
Intangible assets with definite lives:						
Customer relationships	\$ 32,859	\$ 8,750	\$ 24,109	\$ 32,859	\$ 7,625	\$ 25,234
Trade names and trademarks	17,228	2,428	14,800	17,228	2,058	15,170
Deferred financing costs	2,736	1,697	1,039	2,801	1,390	1,411
Non-compete agreements	3,203	2,597	606	3,203	2,281	922
Total intangible assets with definite lives	\$ 56,026	\$ 15,472	\$ 40,554	\$ 56,091	\$ 13,354	\$ 42,737
Intangible assets with indefinite lives:						
Goodwill*	\$ 365,989	\$ 12,026	\$ 353,963	\$ 366,064	\$ 12,026	\$ 354,038
Trade names	11,869	135	11,734	11,869	135	11,734
Total intangible assets with indefinite lives	\$ 377,858	\$ 12,161	\$ 365,697	\$ 377,933	\$ 12,161	\$ 365,772

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

The Company recorded amortization expense of \$1.1 million and \$1.3 million in the 2005 and 2004 quarters and \$2.2 million and \$2.6 million in the 2005 and 2004 periods, respectively. These amounts included amortization of debt issuance costs of approximately \$187,000 and \$372,000 in the 2005 and 2004 quarters and \$375,000 and \$745,000 in the 2005 and 2004 periods, respectively. The estimated future amortization expense of intangible assets as of July 2, 2005 is as follows:

(In thousands)	Amount
2005 (remaining quarters)	\$ 1,963
2006	3,728
2007	3,266
2008	2,820

2009	2,819
2010	2,812
Thereafter	23,146
Total amortization expense	\$40,554

8. *Commitments and Contingencies*

At July 2, 2005, the Company's Customized and Broadline segments had outstanding purchase orders for capital projects totaling \$12.4 million and \$22.2 million, respectively. Amounts due under these contracts were not included on the Company's condensed consolidated balance sheet as of July 2, 2005, in accordance with generally accepted accounting principles.

The Company has entered into numerous operating leases, including leases of buildings, equipment, tractors and trailers. In certain of the Company's leases of tractors, trailers and other vehicles and equipment, the Company has provided residual value guarantees to the lessors. Circumstances that would require the Company to perform under the guarantees include either (1) the Company's default on the leases with the leased assets being sold for less than the specified residual values in th