

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

PERFORMANCE FOOD GROUP CO

Form 10-K

March 29, 2001

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

FORM 10-K

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

For the fiscal year ended December 30, 2000

Commission file number 0-22192

PERFORMANCE FOOD GROUP COMPANY

(Exact name of Registrant as specified in its charter)

Tennessee 54-0402940
(State or other jurisdiction (I.R.S. Employer
of incorporation or organization) Identification Number)

6800 Paragon Place, Ste. 500
Richmond, Virginia 23230
(Address of principal executive (Zip Code)
offices)

Registrant's telephone number, including area code:
(804) 285-7340

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

Securities registered pursuant to Section 12(g) of the Act:
Common Stock, \$.01 par value per share
Rights to Purchase Preferred Stock
(Title of class)

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

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 statements incorporated by reference in Part
III of this Form 10-K or any amendment to this Form 10-
K. []

The aggregate market value of the voting stock held
by non-affiliates of the Registrant on March 23, 2001
was approximately \$827,300,000. The market value
calculation was determined using the closing sale price
of the Registrant's common stock on March 23, 2001, as
reported on The Nasdaq Stock Market.

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

Shares of common stock, \$.01 par value per share,
outstanding on March 23, 2001 were 17,837,644.

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 2, 2001 are incorporated
by reference into Items 10, 11, 12 and 13.

TABLE OF CONTENTS

Part I

Item 1.	Business	3
	The Company and its Business Strategy	3
	Growth Strategies	3
	Customers and Marketing	4
	Products and Services	5
	Suppliers and Purchasing	6
	Information Systems	6
	Operations	7
	Competition	9
	Regulation	9
	Intellectual Property	9
	Employees	10
	Executive Officers	10
	Forward-Looking Statements	11
	Risk Factors	11
Item 2.	Properties	13
Item 3.	Legal Proceedings	14
Item 4.	Submission of Matters to a Vote of Shareholders	14

Part II

Item 5.	Market for the Registrant's Common Stock and Related Stockholder Matters	14
Item 6.	Selected Consolidated Financial Data	15
Item 7.	Management's Discussion and Analysis of Financial Condition and Results of Operations	16
Item 7A.	Quantitative and Qualitative Disclosures About Market Risk	21
Item 8.	Financial Statements and Supplementary Data	21
Item 9.	Changes in and Disagreements with Accountants on Accounting and Financial Disclosure	21

Part III

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

Item 10.	Directors and Executive Officers of the Registrant	21
Item 11.	Executive Compensation	21
Item 12.	Security Ownership of Certain Beneficial Owners and Management	21
Item 13.	Certain Relationships and Related Transactions	22
Part IV		
Item 14.	Exhibits, Financial Statements Schedules and Reports on Form 8-K	22

PERFORMANCE FOOD GROUP COMPANY

Unless this Form 10-K indicates otherwise or the context otherwise requires, the terms "we," "our," "us" or "Performance Food Group" as used in this Form 10-K refer to Performance Food Group Company and its subsidiaries. We use a 52/53 week fiscal year ending on the Saturday closest to December 31. References in this Form 10-K to the years or fiscal years 2000, 1999, 1998, 1997 and 1996 refer to our fiscal years ended December 30, 2000, January 1, 2000, January 2, 1999, December 27, 1997 and December 28, 1996, respectively, unless otherwise expressly stated or the context otherwise requires.

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 both internally through increased sales to existing and new customers and through acquisitions of existing foodservice distributors. (Further discussion of recent acquisitions is contained in Management's Discussion and Analysis under Business Combinations.) Performance Food Group is the nation's fourth largest broadline foodservice distributor based on 2000 net sales of \$2.6 billion. We market and distribute over 31,000 national and proprietary brand food and non-food products to approximately 27,000 customers in the foodservice or "food-away-from-home" industry. Our extensive product line and distribution system allow us to service 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 quick-service and casual-dining restaurants.

We service our customers through three main

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

operating segments. Note 15 to the audited financial statements in this Form 10-K presents financial information for these segments.

- Broadline. Our broadline distribution segment markets and distributes more than 31,000 national and proprietary brand food and non-food products to a total of approximately 27,000 customers, including street customers and certain corporate-owned and franchisee locations of chains such as Burger King, Wendy's, Subway, Church's and Popeye's. In the broadline distribution segment, we design our product mix, distribution routes and delivery schedules to accommodate the needs of a large number of customers whose individual purchases vary in size. Generally, broadline distribution customers are located no more than 250 miles away from one of our twelve broadline distribution facilities, which serve customers in the southern, southeastern, eastern and northeastern United States.
- Customized. Our customized distribution segment focuses on serving casual-dining chain restaurants such as Cracker Barrel Old Country Store, Outback Steakhouse and TGI 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 resolution. We generally can service these customers more efficiently than our broadline distribution customers by warehousing only those stock keeping units, or SKUs, specific to customized segment customers and by making larger, more consistent deliveries. We have five customized distribution facilities currently serving customers in 49 states and several foreign countries.
- Fresh-cut. Our fresh-cut segment purchases, processes, packages and distributes over 860 fresh produce offerings under our "Fresh Advantage" and "Redi-Cut" labels. Our fresh-cut operations are conducted at five processing facilities, and our fresh-cut products are sold mainly to third-party distributors for resale primarily to quick-service restaurants such as Burger King, KFC, McDonald's, Pizza Hut, Taco Bell and Subway located in the southeastern, southwestern and midwestern United States. In addition, we also distribute fresh produce offerings to other foodservice distributors for resale to street accounts as well as to retail establishments.

Growth Strategies

Our business strategy is to grow our foodservice business through both internal growth and acquisitions, and to improve our operating profit margin. We believe that we have the resources and competitive advantages to continue our internal growth and that we are well positioned to take advantage of the consolidation that is taking place in our industry.

Our key growth strategies are as follows:

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

Increase Broadline Sales to Existing Accounts 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. We believe that a higher penetration of our existing broadline distribution accounts and markets will allow us to strengthen our relationships with our current 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 distribution customer base through focused sales efforts that leverage our decentralized decision-making process, our distribution infrastructure and our quality products and value-added services. We also believe that the typical broadline customer in our markets uses one supplier for the majority of its foodservice needs, but also relies upon a limited number of additional 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.

We seek to maintain our price competitiveness in the broadline distribution segment by investing in technology aimed at enhancing our purchasing leverage. We are currently implementing a program to standardize product descriptions across our broadline information systems, which is intended to allow us to enhance coordination of our buying activity and enable us to improve our purchasing power. In addition, we are continuing to invest in technology to provide our sales force with better information with which to assist broadline customers and grow sales.

Increase Sales to Street Customers. Within our broadline segment, we plan to focus on increasing sales to street customers, which typically generate higher operating margins than our sales to chain accounts. We plan to increase 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 programs and sales compensation system are designed to encourage our sales force to grow sales to new and existing street customers.

Increase Sales of Proprietary Brands. We seek to increase sales of our proprietary brands, which typically generate higher margins than national brands. We believe that our proprietary brands, which include Pocahontas, Raffinato and Colonial Tradition, offer customers greater value than national brands, and allow us to reduce our purchasing cost compared to the higher purchase prices typically associated with national brands. We also seek to increase our sales of proprietary brands through our sales force training program and sales compensation system.

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

Grow Our Customized Segment with Existing and Selected New Customers. We seek to strengthen our existing customized distribution relationships by continuing to provide quality products at competitive prices and by upgrading our level of service through initiatives, such as electronic data transfer of ordering, billing and inventory information, which help ensure on-time delivery and more accurate filling of orders. We also seek to selectively add new customers within the customized distribution segment. We believe that potential customers include large chains that have traditionally relied on in-house distribution networks and customers that are dissatisfied with their existing distributor relationships, as well as new or growing restaurant chains that have yet to establish a relationship with a primary chain foodservice distributor.

Become a Nationwide Leader in Fresh-cut Produce. We intend to develop a national presence in the fresh-cut produce segment by continuing to introduce innovative products, such as our machine-processed diced and sliced tomato products, leveraging our core products and building our customer base by capitalizing on our expertise in food safety and preservation.

Increase Operating Efficiencies. We seek to increase our operating efficiencies by continuing to invest in training- and technology-related initiatives to provide increased productivity and value-added services. These productivity-related initiatives include automated warehouse management systems using radio frequency scanning for inventory put-away and selection and computerized truck routing systems. In addition, we have developed and are rolling out an Internet-based ordering system that allows customers to have real-time access to product information, inventory levels and their purchasing history.

Actively Pursue Strategic Acquisitions. 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, and we intend to continue 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. New market acquisitions expand our geographic reach into markets we do not currently serve, and can also allow us to leverage fixed costs.

Customers and Marketing

We believe that foodservice customers select a distributor based on timely and accurate delivery of orders, consistent product quality, value-added services and price. Value-added services include assistance in

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

managing inventories, planning menus and controlling costs through, among other means, increased computer communications and more efficient deliveries. 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 street customers include independent restaurants, hotels, cafeterias, schools, healthcare facilities and other institutional customers. Despite the generally higher selling and delivery costs we incur in servicing street customers, sales to these customers typically generate higher operating profit margins than sales to chain customers. As of December 30, 2000, we supported our sales to our street customers with more than 700 sales and marketing representatives and product specialists. Our sales representatives service customers in person or by telephone, 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 commission and salary based on several factors relating to 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. Our principal chain customers generally are franchisees or corporate-owned units of family-dining, casual-theme and quick-service restaurants. These customers include casual-dining restaurant concepts, such as Cracker Barrel Old Country Store, Outback Steakhouse and TGI Friday's, as well as a total of approximately 4,400 Burger King, Church's, Dairy Queen, Freshens, KFC, Popeye's, Subway, TCBY and Wendy's quick-service restaurants. Our sales programs to chain customers tend to be tailored to the individual customer and include a more specialized product offering than the sales programs for our street customers. Sales to chain customers are typically high volume, low gross margin sales that 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 us for the lower gross margins. Our chain customers are supported primarily by dedicated account representatives who are responsible for ensuring that customers' orders are properly entered and filled. In addition, more senior members of management assist in identifying potential new chain customers and managing long-term account relationships. Two of our chain customers, Cracker Barrel and Outback, account for a significant portion of our consolidated net sales. Net sales to Cracker Barrel accounted for 16%, 17% and 18% of our consolidated net sales for 2000, 1999 and 1998, respectively. Net sales to Outback accounted for 16%, 16% and 15% of our consolidated net sales for 2000, 1999 and 1998, respectively. No other chain customer accounted for more than 5% of our consolidated net sales in 2000.

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

Fresh-cut Customers. Our fresh-cut business provides processed produce, including salads, sandwich lettuce and cut tomatoes, mainly to distributors for resale to quick-service restaurants and other institutional accounts. We seek to develop innovative products and processing techniques to reduce costs, improve product quality and reduce sales prices. Our customers for our fresh-cut products are primarily other foodservice distributors who resell these products to a total of more than 20,000 Burger King, KFC, McDonald's, Pizza Hut, Subway and Taco Bell restaurants. We also service several food product manufacturers such as Hormel and McCormick, as well as food retailers such as Jewel-Osco, a division of Albertson's, and Dominick's, a division of Safeway.

Products and Services

We distribute more than 31,000 national and proprietary brand food and non-food products to a total of approximately 27,000 foodservice customers. These items include a broad selection of "center-of-the-plate" entrees, canned and dry groceries, frozen foods, refrigerated and dairy products, paper products and cleaning supplies, fresh-cut produce, restaurant equipment and other supplies. We also provide our customers with other value-added services that are described below.

Proprietary Brands. We offer customers an extensive line of products under various proprietary brands such as Pocahontas, Healthy USA, Premium Recipe, Colonial Tradition, Raffinato, Gourmet Table, Brilliance and AFFLAB. The Pocahontas brand name has been recognized in the food industry for over 100 years. Products offered under our various proprietary brands include canned and dry groceries, table top sauces, shortenings and oils, among others. 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 segment, while our Healthy USA brand is tailored to meet the needs of the health conscious market segment. We seek to increase the sales of our proprietary brands, as they typically carry 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 national brands are attractive to chain accounts and other customers seeking consistent product quality throughout their operations. We believe that distributing national brands has strengthened our relationship with many national suppliers that provide us with important sales and marketing support. These sales complement sales of our proprietary brand products.

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

Innovative Fresh-Cut Products. We believe that the ability to provide quality products with an acceptable shelf life is key to the success of our fresh-cut produce business. We offer fresh-cut products, such as pre-cut fruit, lettuce, onions and green peppers, cole slaw, and diced, sliced and bulk tomatoes, that we purchase, process and market under the Fresh Advantage and Redi-Cut labels. As quick-service restaurants seek to increase their profitability by reducing reliance on labor-intensive tasks conducted on-site, we believe that there is an opportunity for us to capture market share by introducing innovative products. For example, we believe that sliced tomatoes are one of the few remaining produce items to still be processed on-site in quick-service restaurants. We believe that sliced tomatoes, when individually sliced by quick-service restaurant employees, are generally characterized by inconsistent slice thickness, relatively high waste and increased food-safety risk. To help resolve this problem, we have developed equipment that allows us to process sliced tomatoes with consistently high quality and to sell them at a price which we believe can allow quick-service restaurants to realize savings when compared to the total costs of procurement and on-site processing.

Value-added Services. We provide customers with other value-added services in the form of assistance in inventory management, menu planning and improving efficiency. As described below, we also provide procurement and merchandising services to approximately 180 independent foodservice distributors and over 300 independent paper and janitorial supply distributors, including our own distribution network. These procurement and merchandising services include negotiating vendor supply agreements and providing quality assurance related to our proprietary and national brand products.

The following table sets forth the percentage of our consolidated net sales by product and service category in 2000:

	Percentage of Net Sales For 2000
Center-of-the-plate.....	39%
Canned and dry groceries.....	21
Frozen foods.....	12
Refrigerated and dairy products.....	10
Paper products and cleaning supplies.....	8
Fresh-cut produce.....	5
Other produce.....	3
Equipment and supplies.....	1
Procurement, merchandising and other services....	1
Total.....	100%

Suppliers and Purchasing

We procure our products from independent suppliers,

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

food brokers and merchandisers, including our wholly owned subsidiary, Pocahontas Foods. Pocahontas procures both nationally branded items as well as items marketed under our proprietary brands. Independent suppliers include large national and regional food manufacturers and consumer products companies, meatpackers and produce shippers. We seek to enhance our purchasing power through volume purchasing. Although each of our subsidiaries generally is 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 5% of our total product purchases during 2000.

Pocahontas selects foodservice products for our Pocahontas, Healthy USA, Premium Recipe, Colonial Tradition, Raffinato, Gourmet Table, Brilliance and AFFLAB brands and markets these brands, as well as nationally branded foodservice products, through approximately 180 of our own distribution operations and independent foodservice distributor facilities nationwide. For our services, we receive marketing fees paid by vendors. More than 18,000 of the products sold through Pocahontas are sold under our proprietary brands. Approximately 600 vendors, located throughout the United States, supply products through the Pocahontas distribution network. Because Pocahontas negotiates purchase agreements on behalf of its independent distributors as a group, the distributors that utilize the Pocahontas procurement and merchandising group can enhance their purchasing power.

Our fresh-cut segment purchases produce from several of the nation's leading produce growers in various locations, depending on the season. Our fresh-cut segment often enters into short-term contracts to purchase raw materials to help reduce supply risk and manage exposure to fluctuations in costs.

Information Systems

In our broadline distribution operations, we manage the ordering, receiving, warehousing and delivery of over 31,000 products through our Foodstarr software, which allows our customers to electronically place orders with us and permits us to record sales, billing and inventory information. The software also aids in the timely and accurate financial reporting by our subsidiaries to our corporate headquarters. Software development and maintenance on this platform is managed on a centralized basis by our corporate information technology staff. This platform is being enhanced to provide standardized product descriptions to facilitate leveraging our purchasing volume across our distribution network. In addition, we are implementing an automated warehouse management system that uses radio frequency scanning to track products within our distribution centers. This technology is intended to enhance

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

productivity by reducing errors in inventory put-away and selection. We have also implemented truck routing software to optimize the distribution routes traveled by our trucks in order to reduce excess mileage and improve the timeliness of customer deliveries. Lastly, we have developed and are rolling out an Internet-based ordering system which allows customers to have real-time access to product information, inventory levels and their purchasing history.

In our customized distribution segment, we use a similar software platform that has been customized to manage large, national accounts. This system, which is managed centrally at our customized distribution headquarters, provides product information across our customized distribution network and facilitates item and menu changes by customers. We have also implemented automated warehouse management systems and truck routing systems at all of our customized distribution locations. Our customized distribution customers also utilize our computer-to-computer ordering system, PFG Connection, to place orders.

Operations

Our subsidiaries have substantial autonomy in their operations, subject to overall corporate management controls and guidance. Our corporate management provides centralized direction in the areas of strategic planning, general and financial management, sales and merchandising. Individual marketing efforts are undertaken at the subsidiary level and most of our name recognition in the foodservice business is based on the trade names of our individual subsidiaries. In addition, we have begun to associate these local identities with the Performance Food Group name. Each subsidiary has primary responsibility for its own human resources, governmental compliance programs, accounting, billing and collection. Financial information reported by our subsidiaries is consolidated and reviewed by our corporate management.

Distribution operations are conducted out of 17 distribution centers located in California, Florida, Georgia, Louisiana, Maine, Maryland, New Jersey, Tennessee, Texas and Virginia. Customer orders are assembled in our distribution facilities and then sorted, placed on pallets, and loaded onto trucks and trailers in delivery sequence. Deliveries covering long distances are made in large tractor-trailers that we generally lease. Deliveries within shorter distances are made in trucks that we either own or lease. We service some of our larger chain customers using dedicated trucks due to the relatively large and consistent deliveries and the geographic distribution of these customers. The trucks and delivery trailers we use have separate temperature-controlled compartments. We utilize a computer system to design efficient route sequences for the delivery of our products.

Processing operations are conducted out of five fresh-cut processing plants, located in Georgia,

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

Illinois, Missouri, North Carolina and Texas. Customer orders are accepted, processing runs are scheduled and produce is sorted, washed, cut, packaged and loaded onto pallets. These pallets are loaded onto trucks for delivery to third-party distributors, primarily for use in quick-service restaurants. We make deliveries in temperature-controlled trucks that we generally either own or lease. Most of these orders are processed and delivered in less than 24 hours from the time of order placement.

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

Name of Subsidiary/Division	Principal Region(s)	Location of Facilities	Approx. Number of Customer Locations Currently Served
Broadline Distribution:			
AFFLINK	Nationwide	Tuscaloosa, AL	340
AFI Food Service Distributors	New Jersey and New York City metropolitan area	Elizabeth, NJ	2,500
Caro Foods	South	Houma, LA	1,500
Carroll County Foods	Baltimore, MD and Washington, D.C. area	New Windsor, MD	1,200
NorthCenter	Maine	Augusta, ME	2,000
Performance Food Group of Texas	South and Southwest	Temple, TX Victoria, TX	5,300
PFG - Florida	Florida	Tampa, FL	2,600
PFG - Hale	Tennessee, Virginia and Kentucky	Morristown, TN	800
PFG - Lester Broadline	South	Lebanon, TN	2,000
PFG - Milton's	South and Southeast	Atlanta, GA	4,900

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

PFG - Powell	Georgia, Florida and Alabama	Thomasville, GA	1,900
Pocahontas Foods, USA	Nationwide	Richmond, VA	180
Virginia Foodservice Group	Virginia	Richmond, VA	1,000
Customized Distribution:			
PFG Customized Distribution	Nationwide	Lebanon, TN Gainesville, FL McKinney, TX Belcamp, MD Bakersfield, CA	1,700
Fresh-cut Produce:			
Fresh Advantage and Redi-Cut	Southeast, Southwest and Midwest	Franklin Park, IL Kansas City, MO Raleigh, NC Grand Prairie, TX Carrollton, GA	450

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. 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. In the fresh-cut produce segment of our business, competition comes mainly from smaller processors, although we encounter intense competition from larger national and regional processors when selling produce to chain restaurants. We believe that most purchasing decisions in the foodservice business are based on the distributor's ability to completely and accurately fill orders and to provide timely deliveries, on the quality of the product, and on price.

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. Our facilities are generally inspected at

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

least annually by state and/or federal authorities. 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.

Our relationship with our fresh food suppliers with respect to the grading and commercial acceptance of product shipments is governed by the Federal Produce and Agricultural Commodities Act, which specifies standards for sale, shipment, inspection and rejection of agricultural products. We are also subject to regulation by state authorities for accuracy of our weighing and measuring devices.

Some of our distribution facilities have underground and above ground 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.

Our trucking operations are regulated by the Surface Transportation Board and the Federal Highway Administration. 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. Management believes that we are in substantial compliance with applicable regulatory requirements relating to our motor carrier operations. Our failure to comply with the applicable motor carrier regulations could result in substantial fines or revocation of our operating permits.

Intellectual Property

Except for the Pocahontas, Fresh Advantage and Redi-Cut trade names, 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.

In connection with our fresh-cut processing, we rely heavily on certain proprietary machinery and processes that are used to prepare some of our products. Although we believe that the cost and complexity of our machinery has been and will continue to be a barrier to entry to other potential competitors in the fresh-cut segment, we have not protected the machinery or processes through patents or other methods. As a result, some of our existing or potential competitors could develop similar machinery or processes. If this occurred, it could substantially increase competition in the fresh-cut segment, thereby reducing prices and materially adversely affecting our results of operations in this segment.

Employees

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

As of December 30, 2000, we had approximately 5,300 full-time employees, including approximately 1,500 in management, administration, marketing and sales and the remainder in operations. As of December 30, 2000, approximately 630 of our employees were represented by a union or a collective bargaining unit. We have entered into five collective bargaining and similar agreements with respect to our unionized employees. We consider our employee relations to be satisfactory.

Executive Officers

The following table sets forth certain information concerning our executive officers and certain key employees as of December 30, 2000:

Name	Age	Position
Robert C. Sledd.....	48	Chairman, Chief Executive Officer and Director
C. Michael Gray.....	51	President, Chief Operating Officer and Director
Roger L. Boeve.....	62	Executive Vice President and Chief Financial Officer
Thomas Hoffman.....	61	Senior Vice President
G. Thomas Lovelace, Jr....	47	Vice President
John D. Austin.....	39	Vice President-Finance and Secretary
John R. Crown.....	54	Broadline Regional President
Joseph J. Paterak, Jr....	49	Broadline Regional President
Steven Spinner.....	40	Broadline Regional President

Robert C. Sledd has served as Chairman of the Board of Directors since February 1995 and has served as Chief Executive Officer and a director of Performance Food Group since 1987. Mr. Sledd served as President of Performance Food Group from 1987 to February 1995. Mr. Sledd has served as a director of Taylor & Sledd Industries, Inc., a predecessor of Performance Food Group, since 1974, 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.

C. Michael Gray has served as President and Chief Operating Officer of Performance Food Group since February 1995 and has served as a director of Performance Food Group since 1992. Mr. Gray served as President of Pocahontas Foods, USA, Inc., a wholly owned subsidiary of Performance Food Group, from 1981 to 1995. Mr. Gray had been employed by Pocahontas since 1975, serving as Marketing Manager and Vice President of Marketing. Prior to joining Pocahontas, Mr. Gray was employed by Kroger Company as a produce buyer.

Roger L. Boeve has served as Executive Vice President and Chief Financial Officer of Performance Food Group since 1988. Prior to that date, Mr. Boeve served as Executive Vice President and Chief Financial Officer for The Murray Ohio Manufacturing Company and as

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

Corporate Vice President and Treasurer for Bausch and Lomb. Mr. Boeve is a certified public accountant.

Thomas Hoffman has served as Senior Vice President of Performance Food Group since February 1995. Since 1989, Mr. Hoffman has served as President of Kenneth O. Lester Company, Inc., a wholly owned subsidiary of Performance Food Group. Prior to joining Performance Food Group in 1989, 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.

G. Thomas Lovelace, Jr. has served as Vice President of Performance Food Group since February 2001 and has served as President of Fresh Advantage, Inc., a wholly owned subsidiary of Performance Food Group, since 1996.

John D. Austin has served as Vice President-Finance since January 2001 and as Secretary of Performance Food Group since March 2000. Mr. Austin served as Corporate Treasurer from 1998 to January 2001. Mr. Austin also 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 medical supplies distributor. Prior to that, Mr. Austin was an accountant with Deloitte & Touche LLP. Mr. Austin is a certified public accountant.

John R. Crown has served as Broadline Regional President of Performance Food Group since January 1999. Mr. Crown served as Vice President, Business Development of Performance Food Group from January 1997 to January 1999. From 1987 to 1996, Mr. Crown served as President of Burris Retail Food Systems, a subsidiary of Burris Foods, Inc., and as Executive Vice President and General Manager of Institution Food House. Mr. Crown is immediate past Chairman of the National Frozen Food Association and a member of the board of directors of Food Distributors International, two food industry trade associations.

Joseph J. Paterak, Jr. has served as Broadline Regional President of Performance Food Group since January 1999. Mr. Paterak 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.

Steven Spinner has served as Broadline Regional President of Performance Food Group since January 2001 and has served as President of AFI Foodservice Distributors, Inc., a wholly owned subsidiary of Performance Food Group, since October 1997. From 1989 to October 1997, Mr. Spinner served as Vice President of AFI.

Forward-Looking Statements

This annual report on Form 10-K and the documents

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

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," "intend," "seek" 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 annual report on Form 10-K are described under "Risk Factors" and in the documents incorporated by reference herein.

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 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 statements to reflect future events or developments.

Risk Factors

Foodservice distribution is a low-margin business and is 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. A significant portion 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. The foodservice industry is also 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 and fuel or other transportation-related costs. There can be no assurance that one or more of these factors will not adversely affect our future operating results. We have experienced losses due to the uncollectibility of accounts receivable in the past and could experience

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

such losses in the future.

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 Outback Steakhouse accounted for 16% of our consolidated net sales in 2000 and 1999. Net sales to Cracker Barrel Old Country Store accounted for 16% of our consolidated net sales in 2000 and 17% of our consolidated net sales in 1999. We do not have agreements requiring these or other customers to purchase any specified amount of goods from us, nor do we have any assurance as to the level of future purchases by our customers. Likewise, our customers generally have the ability to stop buying from us at any time. A material decrease in sales to any of our major customers 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. In particular, we believe that one of our customers, who accounted for approximately 5% of our consolidated net sales in 2000, may be experiencing financial difficulties.

Our business 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 foodservice distributors, and our growth strategy includes additional acquisitions. There can be no assurance that we will be able to make acquisitions in the future or that any acquisitions we do make will be successful. Furthermore, there can be no assurance that future acquisitions will not 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 business are being integrated into our operations. In connection with the acquisitions of other businesses in the future, we may decide to consolidate the operations of an 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. In addition, the successful integration of acquired companies depends upon the timely, efficient and successful execution of post-acquisition events, which include the integration of the acquired businesses into our purchasing programs, distribution network, marketing programs and information systems. Additionally, our ability to make any future acquisitions may depend upon obtaining additional financing. There can be no assurance that we will be able to obtain additional financing on acceptable terms or at all.

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

Managing our growth may be difficult and our growth rate may decline. We have rapidly expanded our operations since inception. This growth has placed significant demands on our administrative, operational and financial resources. We cannot assure you that this growth will continue. To the extent that our customer base and our services continue to grow, this growth is 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 from time to time. As we near maximum utilization of a given facility, operations may be constrained and inefficiencies may be created which could adversely affect our operating results until the facility is expanded or volume is shifted to another facility. Conversely, as we add additional facilities or expand existing facilities, excess capacity may be created. Any excess capacity may also create inefficiencies and adversely affect our operating results.

Competition in the foodservice distribution 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. In the fresh-cut produce area of our business, competition comes mainly from smaller processors. We believe that most purchasing decisions in the foodservice business are based on the distributor's ability to completely and accurately fill orders and to provide timely deliveries, on the quality of the product and on price. Our failure to compete successfully could have a material adverse effect on our business, operating results and financial condition.

Our success depends on our senior management and key employees. 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. In addition, we depend to a substantial degree on the services of certain key employees. 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 for our common stock. In

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

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 and fuel costs; 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 2. Properties.

The following table presents information about our primary real properties and facilities and our operating subsidiaries and division:

Location	Approx. Area in Sq. Ft.	Operating Segment	Owned/Leased (Expiration Date if Leased)
AFFLINK			
Tuscaloosa, AL	18,000	Broadline	Leased (2001)
AFI Food Service Distributors			
Elizabeth, NJ	160,000	Broadline	Leased (2024)
Newark, NJ	21,000	Broadline	Leased (2002)
Caro Foods			
Houma, LA	162,000	Broadline	Owned
Carroll County Foods			
New Windsor, MD	90,000	Broadline	Leased (2005)
Fresh Advantage			
Carrollton, GA	105,000	Fresh-cut	Owned

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

Raleigh, NC	36,000	Fresh-cut	Leased (2001)
Grand Prairie, TX	105,000	Fresh-cut	Leased (2002)
NorthCenter			
Augusta, ME	123,000	Broadline	Owned
Performance Food Group Company			
Richmond, VA	9,000	Corporate	Leased (2001)
Performance Food Group of Texas			
Temple, TX	290,000	Broadline	Leased (2002)
Victoria, TX	250,000	Broadline	Owned
PFG Customized Distribution			
Lebanon, TN	235,000	Customized	Owned
Gainesville, FL	160,000	Customized	Owned
McKinney, TX	163,000	Customized	Owned
Belcamp, MD	73,000	Customized	Leased (2001)
Bakersfield, CA	900	Customized	Leased (2001)
PFG-Florida			
Tampa, FL	130,000	Broadline	Owned
PFG-Hale			
Morristown, TN	78,000	Broadline	Owned
PFG-Lester Broadline			
Lebanon, TN	160,000	Broadline	Leased (2002)
PFG-Milton's			
Atlanta, GA	260,000	Broadline	Owned
PFG-Powell			
Thomasville, GA	75,000	Broadline	Owned
Pocahontas Foods, USA			
Richmond, VA	116,000	Broadline	Leased (2005)
Redi-Cut			
Franklin Park, IL	36,000	Fresh-cut	Leased (2010)
Franklin Park, IL	120,000	Fresh-cut	Leased (2006)
Kansas City, MO	53,000	Fresh-cut	Owned
Virginia Foodservice Group			
Richmond, VA	93,000	Broadline	Leased (2005)
Norfolk, VA	18,000	Broadline	Owned

Item 3. Legal Proceedings.

In April 1999, Maxwell Chase Technologies, LLC filed suit in U.S. District Court against our Fresh Advantage subsidiary. The lawsuit alleges, among other things, patent infringement and theft of trade secrets in the development and use of packaging materials used in our fresh-cut produce operations. Maxwell seeks to recover compensatory and other damages, as well as lost profits. We are vigorously defending this action and have filed a counterclaim against Maxwell. On February 1, 2001, the United States Patent and Trademark Office issued a decision that significantly diminishes the

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

likelihood of an unfavorable decision against us with respect to Maxwell's claim of patent infringement. We believe that Maxwell's allegations are without merit and that it is unlikely the outcome will have a material adverse effect on us. However, there can be no assurance that this matter, if decided unfavorably for us, will not have a material adverse effect on our results of operations.

In addition to the matter described above, we are also involved in other legal proceedings and litigation arising in the ordinary course of business. In the opinion of management, the outcome of the other proceedings and litigation currently pending will not have a material adverse effect on our results of operations.

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

No matters were submitted to a vote of the shareholders during the fourth quarter ended December 30, 2000.

PART II

Item 5. Market for the Registrant's Common Stock and Related Stockholder Matters.

Our common stock is quoted on the Nasdaq Stock Market's National Market under the symbol "PFGC." 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 National Market:

	2000	
	High	Low
First Quarter	\$ 26.06	\$ 19.00
Second Quarter	33.88	21.50
Third Quarter	38.00	31.25
Fourth Quarter	56.75	32.00
For the Year	56.75	19.00

	1999	
	High	Low
First Quarter	\$ 30.50	\$ 23.63
Second Quarter	28.63	23.25
Third Quarter	28.63	24.38
Fourth Quarter	28.00	20.75
For the Year	30.50	20.75

As of March 23, 2001, we had approximately 2,300 shareholders of record and approximately 5,300 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.

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

Item 6. Selected Consolidated Financial Data

(Dollar amounts in thousands, except per share amounts)	2000	1999	1998
STATEMENT OF EARNINGS DATA:			
Net sales	\$ 2,605,468	\$ 2,055,598	\$ 1,721,316
Cost of goods sold	2,253,277	1,773,632	1,491,079
Gross profit	352,191	281,966	230,237
Operating expenses	302,176	242,625	198,646
Operating profit	50,015	39,341	31,591
Other income (expense):			
Interest expense	(6,593)	(5,388)	(4,411)
Nonrecurring merger expenses	-	(3,812)	-
Gain on sale of investment	-	768	-
Other, net	(66)	342	195
Other expense, net	(6,659)	(8,090)	(4,216)
Earnings before income taxes	43,356	31,251	27,375
Income tax expense	16,475	12,000	9,965
Net earnings	\$ 26,881	\$ 19,251	\$ 17,410
PER SHARE DATA:			
Weighted average common shares outstanding	14,168	13,772	13,398
Basic net earnings per common share	\$ 1.90	\$ 1.40	\$ 1.30
Pro forma basic net earnings per common share(1) (2)	1.90	1.54	1.26
Weighted average common shares and dilutive potential common shares outstanding	14,769	14,219	13,925
Diluted net earnings per common share	\$ 1.82	\$ 1.35	\$ 1.25
Pro forma diluted net earnings per common share(1) (2)	1.82	1.49	1.21
Book value per share	\$ 20.16	\$ 13.42	\$ 11.67
Closing price per share	51.27	24.38	28.13
BALANCE SHEET AND OTHER DATA:			
Working capital	\$ 96,470	\$ 70,879	\$ 63,280
Property, plant and equipment, net	143,142	113,930	93,402
Depreciation and amortization	17,877	14,137	11,501
Capital expenditures	30,992	26,006	26,663
Total assets	709,696	462,045	387,712
Short-term debt (including current installments of long-term debt)	1,966	703	797
Long-term debt	114,492	92,404	74,305
Shareholders' equity	357,717	189,344	157,085
Total capital	\$ 474,175	\$ 282,451	\$ 232,187
Debt-to-capital ratio	24.6%	33.0%	32.3%
Pro forma return on equity(1) (2) (3)	12.4%	12.3%	11.4%
P/E ratio	28.2	18.1	22.5

(1) Pro forma adjustments to net earnings per common share and return on equity add back nonrecurring income taxes as if NorthCenter was taxed as a C-corporation for income tax purposes prior to the merger of NorthCenter in February 1999.

(2) 1999 excludes a nonrecurring gain of \$768 on the sale of an investment.

(3) Return on equity for 2000 is adjusted for the impact of the common stock offering, completed

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

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

Financial Data" and our consolidated financial statements and the related notes included elsewhere in this Form 10-K.

Introduction

Performance Food Group was founded in 1987 as a result of the combination of various foodservice businesses, and has grown both internally through increased sales to existing and new customers and through acquisitions of existing foodservice distributors. We derive our revenue primarily from the sale of food and non-food products to the foodservice, or "food-away-from-home," industry. The principal components of our expenses include cost of goods sold, which represents the amounts paid to manufacturers and growers for products sold, and operating expenses, which include primarily labor-related expenses, delivery costs and occupancy expenses related to our facilities.

A portion of our growth in net sales during the years discussed below was due to acquisitions. The "Business Combinations" section below summarizes our acquisitions since the beginning of 1999.

RESULTS OF OPERATIONS

The following table sets forth, for the years indicated, the components of our consolidated statements of earnings expressed as a percentage of net sales:

	2000	1999	1998
Net sales	100.0 %	100.0 %	100.0 %
Cost of goods sold	86.5	86.3	86.6
Gross profit	13.5	13.7	13.4
Operating expenses	11.6	11.8	11.6
Operating profit	1.9	1.9	1.8
Other expense, net	0.2	0.4	0.2
Earnings before income taxes	1.7	1.5	1.6
Income tax expense	0.7	0.6	0.6
Net earnings	1.0 %	0.9 %	1.0 %

Comparison of 2000 to 1999

Net sales. Net sales increased 26.7% to \$2.61 billion for 2000 from \$2.06 billion for 1999. Net sales in our existing operations increased 22.6% over 1999, while acquisitions contributed the remaining 4.1% of our total net sales growth for 2000. Net sales in existing operations exclude the net sales of an acquired business for the first 12 months following the acquisition date of that business. Inflation amounted to approximately 1.0% in 2000.

Gross profit. Gross profit increased 24.9% to \$352.2 million in 2000 from \$282.0 million in 1999. Gross profit margin, which we define as gross profit as a percentage of net sales, decreased to 13.5% in 2000 compared to 13.7% in 1999. The decrease in gross profit margin was due primarily to increased sales to certain of our chain customers, which generally are higher volume, lower gross margin accounts.

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

Operating expenses. Operating expenses increased 24.5% to \$302.2 million in 2000 from \$242.6 million in 1999. As a percentage of net sales, operating expenses decreased to 11.6% in 2000 from 11.8% in 1999. The decrease in operating expenses as a percentage of net sales was due mainly to increased sales in our customized distribution segment, which has a lower operating expense ratio, which we define as the ratio of operating expenses to net sales, than our broadline and fresh-cut segments, offset in part by higher fuel costs.

Operating profit. Operating profit increased 27.1% to \$50.0 million in 2000 from \$39.3 million in 1999. Operating profit margin, which we define as operating profit as a percentage of net sales, was 1.9% for 2000 and 1999.

Other expense, net. Other expense, net, decreased to \$6.7 million in 2000 from \$8.1 million in 1999. Other expense, net, included interest expense of \$6.6 million in 2000 and \$5.4 million in 1999. Other expense, net, for 1999 also included nonrecurring merger expenses related to the NorthCenter merger of \$3.8 million and a gain of \$768,000 on the sale of an investment.

Income tax expense. Income tax expense increased to \$16.5 million in 2000 compared to \$12.0 million in 1999. The effective tax rate decreased to 38.0% in 2000 from 38.4% in 1999. The fluctuation in the effective tax rate was due primarily to the merger with NorthCenter, which was taxed as an S-corporation for income tax purposes prior to the merger with us during the first quarter of 1999.

Net earnings. Net earnings increased 39.6% to \$26.9 million in 2000 from \$19.3 million in 1999. For 2000, net earnings as a percentage of net sales increased to 1.0% from 0.9% in 1999.

Comparison of 1999 to 1998

Net sales. Net sales increased 19.4% to \$2.06 billion for 1999 compared with \$1.72 billion for 1998. Net sales in our existing operations increased 14.7% over 1998, while acquisitions contributed an additional 4.7% to our net sales growth. Excluding the effect of the 53rd week in 1998, net sales increased by 21.3% over 1998, and net sales in our existing operations increased by 16.5% over 1998. Inflation was insignificant in 1999.

Gross profit. Gross profit increased 22.5% to \$282.0 million in 1999 compared with \$230.2 million in 1998. Gross profit margin increased to 13.7% in 1999 compared to 13.4% in 1998. The increase in gross profit margin was due primarily to improved profit margins at many of our broadline locations.

Operating expenses. Operating expenses increased 22.1% to \$242.6 million in 1999 from \$198.6 million in 1998. As a percentage of net sales, operating expenses

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

increased to 11.8% in 1999 compared with 11.6% in 1998. The increase in operating expenses as a percentage of net sales primarily reflected increased labor costs, including recruiting and training additional personnel, mainly in the transportation and warehouse areas, which are an integral part of our distribution service. Operating expenses were also impacted by the start-up of a new customized distribution facility to service certain of our chain customers, which became operational in mid-1999.

Operating profit. Operating profit increased 24.5% to \$39.3 million in 1999 from \$31.6 million in 1998. Operating profit as a percentage of net sales also increased to 1.9% for 1999 from 1.8% for 1998.

Other expense, net. Other expense, net, increased to \$8.1 million in 1999 from \$4.2 million in 1998. In 1999, other expense, net, included \$3.8 million of nonrecurring expenses related to the merger with NorthCenter. Other expense, net, includes interest expense, which increased to \$5.4 million in 1999 from \$4.4 million in 1998. The increase in interest expense was due primarily to higher debt levels as a result of our various acquisitions and working capital requirements. Partially offsetting these expenses in 1999 was a \$768,000 nonrecurring gain on the sale of an investment.

Income tax expense. Income tax expense increased 20.4% to \$12.0 million in 1999 from \$10.0 million in 1998 as a result of higher pre-tax earnings. As a percentage of earnings before income taxes, income tax expense was 38.4% in 1999 versus 36.4% in 1998. The increase in the effective tax rate was due primarily to the merger with NorthCenter, which was treated as an S-corporation for income tax purposes prior to its merger with us. As an S-corporation, NorthCenter was not subject to income taxes prior to the merger, but following the merger, NorthCenter became subject to income taxes for all periods after the merger.

Net earnings. Net earnings increased to \$19.3 million in 1999 from \$17.4 million in 1998. As a percentage of net sales, net earnings decreased to 0.9% in 1999 from 1.0% in 1998.

Liquidity and Capital Resources

We have historically financed our operations and growth primarily with cash flows from operations, borrowings under 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.

Cash Flows from Operating Activities. Cash provided by operating activities was \$14.6 million in 2000. In 2000, the primary sources of cash from

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

operating activities were net earnings and increased levels of trade payables, accrued expenses and income taxes payable, partially offset by increased levels of trade receivables and inventories. Cash provided by operating activities was \$47.0 million and \$24.3 million in 1999 and 1998, respectively. In 1999, the primary sources of cash from operating activities were net earnings and increased levels of trade payables and accrued expenses, partially offset by increased levels of inventories. In 1998, the primary sources of cash from operating activities were net earnings and increased levels of trade payables and accrued expenses, partially offset by increased levels of trade receivables.

Cash Used by Investing Activities. Cash used by investing activities was \$153.5 million in 2000. Investing activities primarily include additions to and disposals of property, plant and equipment and the acquisition of businesses. Our capital expenditures, excluding acquisitions of businesses, in 2000 were \$31.0 million. Cash used by investing activities in 2000 included \$124.2 million paid as a portion of the purchase price of Redi-Cut Foods, Inc. and its affiliates, Kansas City Salad, L.L.C. and K.C. Salad Real Estate, L.L.C., collectively "Redi-Cut," and Carroll County Foods, Inc., net of cash on hand at these acquired companies, and payments made to the former shareholders of AFFLINK Incorporated and Dixon Tom-A-Toe Companies, Inc. as a result of certain contractual obligations under those purchase agreements. Cash used by investing activities was \$41.8 million and \$47.1 million for 1999 and 1998, respectively. During 1999 and 1998, we paid \$18.1 million and \$23.9 million, respectively, for the acquisition of businesses, net of cash on hand at the acquired companies. Our total capital expenditures, excluding acquisitions of businesses, for 1999 and 1998 were \$26.0 million and \$26.7 million, respectively. In 1999 and 1998, proceeds from the sale of property, plant and equipment totaled \$1.1 million and \$3.6 million, respectively. Investing activities in 1999 also included \$1.6 million from the sale of an investment.

Cash Provided by Financing Activities. Cash provided by financing activities was \$151.8 million in 2000. In 2000, cash flows from financing activities included an increase in outstanding checks in excess of deposits of \$19.0 million, net borrowings of \$12.0 million on our revolving credit facility, \$3.5 million of proceeds from industrial revenue bonds issued to finance the construction of a new produce-processing facility, proceeds of \$124.4 million from the issuance of additional common stock and proceeds of \$5.1 million from the exercise of stock options. In 2000, cash used by financing activities included \$800,000 of principal payments on long-term debt and \$11.9 million paid by us to repurchase shares of our common stock in the open market for use in connection with our employee benefit plans. Cash used in financing activities was \$7.4 million in 1999 and cash provided by financing activities was \$26.7 million in 1998. Financing

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

activities included net borrowings in 1999 of \$13.3 million and net repayments in 1998 of \$26.6 million under our revolving credit facility. Financing activities in 1999 also included a decrease in outstanding checks in excess of deposits of \$20.1 million, principal payments on long-term debt of \$9.2 million and \$1.0 million distributed to the former shareholders of NorthCenter prior to its merger with one of our subsidiaries. Finally, in 1999, we received cash flows of \$5.0 million from the exercise of stock options and proceeds of \$4.6 million from the issuance of industrial revenue bonds to finance the construction of a new produce-processing facility. Cash flows from financing activities in 1998 included an increase in outstanding checks in excess of deposits of \$10.8 million and \$1.8 million from the exercise of stock options. Financing activities in 1998 also included repayment of promissory notes totaling \$7.3 million, payments on long-term debt of \$1.6 million, and \$451,000 distributed to the former shareholders of NorthCenter. Lastly, we received proceeds of \$50.0 million from the issuance of our 6.77% senior notes in May 1998.

On March 5, 1999, we entered into an \$85.0 million revolving credit facility with a group of commercial banks that replaced our existing \$30.0 million credit facility. In addition, we entered into a \$5.0 million working capital line of credit with the lead bank of the group. Collectively, these two facilities are referred to as the "Credit Facility." The Credit Facility expires in March 2002. Approximately \$47.0 million was outstanding under the Credit Facility at December 30, 2000. The Credit Facility also allows the issuance of up to \$10.0 million of standby letters of credit. At December 30, 2000, we were liable for approximately \$9.7 million of outstanding letters of credit that reduce amounts available under the Credit Facility. At December 30, 2000, we had \$33.3 million available under the Credit Facility, subject to compliance with customary borrowing conditions. The Credit Facility bears interest at LIBOR plus a spread over LIBOR, which varies based on the ratio of our funded debt to total capital. At December 30, 2000, borrowings under the Credit Facility bore interest at 7.18% per annum. Additionally, the Credit Facility requires the maintenance of certain financial ratios as defined in the credit agreement.

On March 19, 1999, one of our subsidiaries issued \$9.0 million of tax-exempt industrial revenue bonds to finance the construction of a produce-processing facility. Approximately \$8.1 million of the proceeds from these bonds had been used as of December 30, 2000. Interest on these bonds varied as determined by the remarketing agent for the bonds and was approximately 5.00% per annum at December 30, 2000. The bonds were secured by a letter of credit issued by a commercial bank and mature in March 2019. On January 31, 2001, these bonds were refinanced with the proceeds of \$9.0 million taxable revenue bonds issued by Fresh Advantage, Inc., one of our subsidiaries, in order to free us from certain restrictive covenants applicable to issuers of tax-exempt bonds. Like the tax-exempt bonds, these

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

taxable bonds bear interest at a variable rate determined by a remarketing agent, are secured by a letter of credit issued by a commercial bank, and mature in March 2019.

During the third quarter of 1999, we increased our master operating lease facility from \$42.0 million to \$47.0 million. This facility is being used to construct four distribution centers. Two of these distribution centers became operational in early 1999, one became operational in the second quarter of 2000, and the remaining property is scheduled to become operational in the second quarter of 2001. Under this facility, the lessor owns the distribution centers, incurs the related debt to construct the properties and thereafter leases each property to us. We have entered into leases for three of the properties and have also entered into a commitment to lease the fourth property for a period beginning upon completion of that property. All of these leases end on September 12, 2002, including extensions. Upon the expiration of the leases, we may seek to renew the leases. If we are unable to or choose not to renew the leases, we have the option of selling the properties to third parties or purchasing the properties at their original cost. If the properties are sold to third parties for less than 88% of their aggregate original cost, we are obligated, under a residual value guarantee, to pay the lessor an amount equal to the shortfall. There can be no assurance that we will be able to renew the leases or sell the properties to third parties, and we will require substantial additional financing if we are required to purchase these properties upon the expiration of the master operating lease facility. Because of the location and condition of each property, we believe that the fair value of the properties included in this facility could eliminate or substantially reduce our exposure under the residual value guarantee, although there can be no assurance that we will not be required to make payments to satisfy this guarantee. Through December 30, 2000, construction expenditures by the lessor under this facility were approximately \$43.0 million.

On June 9, 2000, we entered into a \$60.0 million master operating lease facility to construct or purchase various office buildings and distribution centers. As of December 30, 2000, one distribution center had been purchased and construction of one office building and one distribution center had begun under this facility. Under this facility, the lessor owns the properties, incurs the related debt to construct or purchase the properties and thereafter leases each property to us. We have entered into a commitment to lease each property for a period beginning upon the completion of construction or acquisition of that property and ending on June 9, 2005. Upon the expiration of the leases, we may seek to renew the leases. If we are unable to or choose not to renew the leases, we have the option to sell the properties to third parties or purchase the properties at their original cost. If the properties are sold to third parties for less than 85% of their aggregate original cost, we are obligated, under a

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

residual value guarantee, to pay the lessor an amount equal to the shortfall. There can be no assurance that we will be able to renew the leases or sell the properties to third parties, and we will require substantial additional financing if we are required to purchase these properties upon the expiration of the master operating lease facility. Because of the location and condition of the existing property, we believe that the anticipated fair value of the property could eliminate or substantially reduce our exposure under the residual value guarantee with respect to that property. However, there can be no assurance that we will not be required to make payments to satisfy this guarantee either with respect to the existing property or any other properties which may be constructed or purchased in the future under this facility. Through December 30, 2000, construction expenditures by the lessor under this facility were approximately \$7.7 million.

In May 1998, we issued \$50.0 million of unsecured 6.77% senior notes in a private placement. These notes are due May 8, 2010. Interest is payable semi-annually. The senior notes require the maintenance of certain financial ratios as defined in the note agreements. Proceeds of the issue were used to repay amounts outstanding under our credit facilities and for general corporate purposes.

We believe that cash flow from operations and borrowings under our credit facilities and our master operating lease facilities 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 additional acquisitions in the future.

Business Combinations

On August 4, 2000, we acquired the common stock of Carroll County Foods, Inc., a privately owned, broadline foodservice distributor based in New Windsor, Maryland. Carroll County provides products and services to traditional foodservice accounts in a region that includes Baltimore, Maryland and Washington, D.C. Carroll County had 1999 net sales of approximately \$45 million. The aggregate consideration payable to the former shareholders of Carroll County is subject to increase in certain circumstances. On December 13, 2000, we acquired the capital stock of Redi-Cut, a privately owned fresh-cut produce processor with facilities in Franklin Park, Illinois, a suburb of Chicago, and Kansas City, Missouri. Redi-Cut, which provides fresh-cut produce mainly to third-party distributors for resale primarily to national quick-service restaurants and other sectors of the "food-away-from-home" industry, had 1999 net sales of approximately \$113 million.

On February 26, 1999, we completed a merger with NorthCenter Foodservice Corporation, in which NorthCenter became our wholly owned subsidiary.

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

NorthCenter was a privately owned foodservice distributor based in Augusta, Maine, and had 1998 net sales of approximately \$98 million. The merger was accounted for as a pooling-of-interests and resulted in the issuance of approximately 850,000 shares of our common stock in exchange for all of the outstanding stock of NorthCenter. Accordingly, our consolidated financial statements for periods prior to the merger have been restated to include the accounts and results of operations of NorthCenter.

On August 28, 1999, we acquired the common stock of Dixon Tom-A-Toe Companies, Inc., an Atlanta-based privately owned processor of fresh-cut produce. Dixon has operations in the southeastern and midwestern United States. Its operations have been combined with our subsidiary Fresh Advantage, Inc. On August 31, 1999, our subsidiary, AFI Foodservice Distributors, Inc., acquired certain net assets of State Hotel Supply Company, Inc., a privately owned meat processor based in Newark, New Jersey. State Hotel provides Certified Angus Beef and other custom-cut meats to restaurants and food retailers in New York City and the surrounding region. On December 13, 1999, our subsidiary, Virginia Foodservice Group, Inc., acquired certain net assets of Nesson Meat Sales, a privately owned meat processor based in Norfolk, Virginia. Nesson supplies Certified Angus Beef and other custom-cut meats to restaurants and other foodservice operations in the mid-Atlantic region. Together, Dixon, State Hotel and Nesson had 1998 net sales that contributed approximately \$100 million to our operations on an annualized basis.

In 2000, we paid a total of approximately \$124.2 million and issued a total of approximately 637,000 shares of our common stock for the acquisitions of Carroll County and Redi-Cut and to the former shareholders of AFFLINK Incorporated, which was acquired prior to 1999, and Dixon as a result of certain contractual obligations in those purchase agreements. In 1999, we paid a total of approximately \$18.1 million and issued a total of approximately 304,000 shares of our common stock for the acquisition of Dixon, State Hotel and Nesson and to the former shareholders of AFFLINK, AFI Food Service and Virginia Foodservice, which were acquired prior to 1999, as a result of certain contractual obligations in those purchase agreements.

The acquisitions of Dixon, State Hotel, Nesson, Carroll County and Redi-Cut have been accounted for using the purchase method; therefore, the acquired assets and liabilities have been recorded at their estimated fair values at the dates of acquisition. The excess of the purchase price over the fair value of tangible net assets acquired in these acquisitions was approximately \$157.1 million and is being amortized on a straight-line basis over estimated lives ranging from 5 to 40 years. The preliminary allocation of the excess purchase price of the Redi-Cut acquisition is subject to adjustment in 2001. As noted above, the consideration payable to the former owners of some of the businesses

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

we have acquired is subject to increase in certain circumstances. We may be required to issue additional shares and make additional payments in the future to the former owners of Carroll County and AFFLINK.

Recently Issued Accounting Pronouncements

During 1998, the Financial Accounting Standards Board, or FASB, issued Statement of Financial Accounting Standards, or SFAS, No. 133, Accounting for Derivative Instruments and Hedging Activity, which is effective for periods beginning after June 15, 1999. In May 1999, FASB issued SFAS No. 137, Deferral of the Effective Date of SFAS 133, Accounting for Derivative Instruments and Hedging Activities. SFAS No. 137 delayed the effective date of SFAS No. 133 by one year. In June 2000, the FASB issued SFAS No. 138, Accounting for Certain Derivative Instruments and Hedging Activities, an Amendment of FASB Statement No. 133. In September 2000, the FASB issued SFAS No. 140, Accounting for Transfers and Servicing of Financial Assets and Extinguishment of Liabilities. We will be required to adopt the provisions of these standards with our fiscal year beginning on December 31, 2000. Management believes the effect of the adoption of these standards on us will be limited to financial statement presentation and disclosure and will not have a material effect on our financial condition or results of operations.

Quarterly Results And Seasonality

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

	2000			
	(In thousands, except per share amounts)			
	1st	2nd	3rd	4th
	Quarter	Quarter	Quarter	Quarter
Net sales.....	\$579,750	\$654,603	\$693,127	\$677,988
Gross profit.....	77,409	86,979	93,223	94,580
Operating profit.....	7,564	12,388	15,139	14,924
Earnings before income taxes.....	6,244	10,860	13,433	12,819
Net earnings.....	3,871	6,733	8,329	7,948
Basic net earnings per common share.....	0.28	0.49	0.60	0.54
Diluted net earnings per common share.....	0.27	0.47	0.57	0.51

	1999			
	(In thousands, except per share amounts)			
	1st	2nd	3rd	4th

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

	Quarter	Quarter	Quarter	Quarter
Net sales.....	\$466,378	\$501,960	\$534,583	\$552,677
Gross profit.....	62,993	67,855	74,375	76,743
Operating profit.....	6,280	10,076	12,109	10,876
Earnings before income taxes.....	1,176	8,829	11,672	9,574
Net earnings.....	651	5,430	7,236	5,934
Basic net earnings per common share.....	0.05	0.40	0.52	0.42
Diluted net earnings per common share.....	0.05	0.39	0.50	0.41
Pro forma basic net earnings per common share(1) (2)....	0.23	0.40	0.49	0.42
Pro forma diluted net earnings per common share(1) (2)..	0.22	0.39	0.47	0.41

1) Pro forma adjustments to net earnings per common share add back nonrecurring merger expenses and adjust income taxes as if NorthCenter, which merged with one of our subsidiaries in February 1999, were taxed as a C-corporation for income tax purposes rather than as an S-corporation prior to the merger. As an S-corporation, NorthCenter was not subject to income taxes for periods prior to the merger. NorthCenter became subject to income taxes for all periods following the merger.

2) 1999 excludes a nonrecurring gain of \$768,000 on the sale of an investment.

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 our long-term debt. We currently manage this risk through a combination of fixed and floating rates on these obligations. For fixed-rate debt, interest rate changes affect the fair market value of the debt but do not impact earnings or cash flows. For floating-rate debt, interest rate changes generally do not affect the fair market value of the debt but impact earnings and cash flows, assuming other facts remain constant. As of December 30, 2000, our total debt consisted of fixed and floating rate debt of \$52.5 million and \$64.0 million, respectively. Substantially all of our floating rate debt is based on LIBOR.

At December 30, 2000, the fair market value of our fixed-rate debt was approximately \$53.6 million. Holding other variables constant, such as debt levels, a one percentage point decrease in interest rates would increase the unrealized fair market value of the fixed-rate debt by approximately \$4.0 million. The earnings and cash flow impact for the next year resulting from a one percentage point increase in interest rates on floating-rate debt would be approximately \$639,000, holding other variables constant.

From time to time, we use forward swap contracts for hedging purposes to reduce the effect of changing fuel prices. These contracts are recorded using hedge accounting. Under hedge accounting, the gain or loss on the hedge is deferred and recorded as a component of the

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

underlying expense. As of December 30, 2000, we had no outstanding forward swap contracts.

Item 8. Financial Statements and Supplementary Data.

Page of Form 10-K

Financial Statements:

Report of Independent Auditors.....	F-1
Consolidated Balance Sheets.....	F-2
Consolidated Statements of Earnings.....	F-3
Consolidated Statements of Shareholders' Equity.....	F-4
Consolidated Statements of Cash Flows.....	F-5
Notes to Consolidated Financial Statements.....	F-6

Financial Statement Schedules:

Independent Auditors' Report on Financial Statement Schedule.....	S-1
Schedule II - Valuation and Qualifying Accounts.....	S-2

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

None.

PART III

Item 10. Directors and Executive Officers of the Registrant.

The Proxy Statement issued in connection with the shareholders' meeting to be held on May 2, 2001 contains under the caption "Proposal 1: Election of Directors" information required by Item 10 of Form 10-K 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."

Item 11. Executive Compensation.

The Proxy Statement issued in connection with the shareholders' meeting to be held on May 2, 2001 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.

The Proxy Statement issued in connection with the shareholders' meeting to be held on May 2, 2001 contains under the captions "Security Ownership of Certain Beneficial Owners" and "Proposal 1: Election of Directors" information required by Item 12 of Form 10-K and is incorporated herein by reference.

Item 13. Certain Relationships and Related Transactions.

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

The Proxy Statement issued in connection with the shareholders' meeting to be held on May 2, 2001 contains under the caption "Certain Transactions" information required by Item 13 of Form 10-K and is incorporated herein by reference.

PART IV

Item 14. Exhibits, Financial Statement Schedules and Reports on Form 8-K.

- (a). 1. Financial Statements. See index to Financial Statements on page 21 of this Form 10-K.
2. Financial Statement Schedules. See index to Financial Statement Schedules on page 21 of this Form 10-K.
3. Exhibits:

Exhibit Number	Description
A.	Incorporated by reference to our Registration Statement on Form S-1 (No. 33-64930):
3.1	-- Restated Charter of Registrant.
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	-- Loan Agreement dated July 7, 1988, as amended by various amendments thereto, by and between the Pocahontas Food Group, Inc. Employee Savings and Stock Ownership Trust, Sovran Bank/Central South, Trustee, Pocahontas Food Group, Inc., and Third National Bank, Nashville, Tennessee.
10.2	-- Guaranty Agreement dated July 7, 1988 by and between Pocahontas Food Group, Inc. and Third National Bank, Nashville, Tennessee.
10.3	-- 1989 Non-Qualified Stock Option Plan.
10.4	-- 1993 Employee Stock Incentive Plan.
10.5	-- 1993 Outside Directors' Stock Option Plan.
10.6	-- Performance Food Group Employee Savings and Stock Ownership Plan.
10.7	-- Trust Agreement for Performance Food Group Employee Savings and Stock Ownership Plan.

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

- 10.8 -- Form of Pocahontas Food Group, Inc. Executive Deferred Compensation Plan.
- 10.9 -- Form of Indemnification Agreement.
- 10.10 -- Pledge Agreement dated March 31, 1993 by and between Hunter C. Sledd, Jr. and Pocahontas Foods, USA, Inc.
- B. Incorporated by reference to our Annual Report on Form 10-K for the fiscal year ended January 1, 1994:
- 10.11 -- First Amendment to the Trust Agreement for Pocahontas Food Group, Inc. Employee Savings and Stock Ownership Plan.
- 10.12 -- Performance Food Group Employee Stock Purchase Plan.

Exhibit
Number

Description

- C. Incorporated by reference to our Quarterly Report on Form 10-Q for the quarter ended April 2, 1994:
- 10.13 -- Amendment to Loan Agreement dated March 4, 1994 by and among Performance Food Group Company Employee Savings and Stock Ownership Plan, First Tennessee Bank, N.A., Performance Food Group Company and Third National Bank, Nashville, Tennessee.
- D. Incorporated by Reference to our Report on Form 8-K dated January 3, 1995:
- 10.14 -- Second Amendment to Loan Agreement dated January 3, 1995 between Performance Food Group Company, Employee Savings and Stock Ownership Trust, First Tennessee Bank, N.A. as trustee, Performance Food Group Company and Third National Bank, Nashville, Tennessee.
- E. Incorporated by Reference to our Annual Report on Form 10-K for the fiscal year ended December 28, 1996:
- 10.15 -- Performance Food Group Company Employee Savings and Stock Ownership Plan Savings Trust.
- F. Incorporated by Reference to our Report on Form 8-K dated May 20, 1997:
- 10.16 -- Rights Agreement dated as of May 16, 1997 between Performance Food Group Company and First Union National Bank of North Carolina, as Rights Agent.
- G. Incorporated by Reference to our Quarterly Report on Form 10-Q for the quarter ended September 27, 1997:
- 10.17 -- Participation Agreement dated as of

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

August 29, 1997 among Performance Food Group Company, First Security Bank, National Association and First Union National Bank (as agent for the Lenders and Holders).

10.18 -- Lease Agreement dated as of August 29, 1997 between First Security Bank, National Association and Performance Food Group Company.

H. Incorporated by reference to our Annual Report on Form 10-K for the fiscal year ended December 27, 1997:

10.19 -- Form of Change in Control Agreement dated October 29, 1997 with Blake P. Auchmoody, John D. Austin, Roger L. Boeve, John R. Crown, C. Michael Gray, Thomas Hoffman, Mark H. Johnson, Kenneth Peters, Robert C. Sledd and David W. Sober.

10.20 -- Form of Change in Control Agreement dated October 29, 1997 with certain key executives.

I. Incorporated by reference to Quarterly Report on Form 10-Q for the quarter ended June 27, 1998:

10.21 -- Form of Note Purchase Agreement dated as of May 8, 1998 for 6.77% Senior Notes due May 8, 2010.

J. Incorporated by reference to our Annual Report on Form 10-K for the fiscal year ended January 2, 1999:

10.22 -- Performance Food Group Company Executive Deferred Compensation Plan.

K. Incorporated by reference to our Quarterly Report on Form 10-Q for the quarter ended April 3, 1999:

10.23 -- Revolving Credit Agreement dated as of March 5, 1999.

10.24 -- Letter of Credit and Reimbursement Agreement by and among KMB Produce, Inc. and First Union National Bank, dated as of March 1, 1999.

10.25 -- Guaranty Agreement by and among Performance Food Group Company and First Union National Bank, dated as of March 1, 1999.

L. Incorporated by reference to our Quarterly Report on Form 10-Q for the quarter ended October 2, 1999:

10.26 -- First Amendment to Certain Operative Agreements dated August 31, 1999.

M. Incorporated by reference to our Quarterly Report on Form 10-Q for the quarter ended July 1, 2000:

10.27 -- Participation Agreement dated as of June 9, 2000 for the \$60 million master operating lease agreement.

Exhibit

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

Number Description
10.28 -- Lease Agreement dated as of June 9, 2000 for the \$60 million master operating lease agreement.

N. Filed herewith:

10.29 -- First Amendment of Credit Agreement dated as of September 27, 2000, among Performance Food Group Company, the lenders party thereto and First Union National Bank.

10.30 -- Second Amendment to Credit Agreement dated as of December 13, 2000, among Performance Food Group Company, the lenders party thereto and First Union National Bank.

10.31 -- Third Amendment to Credit Agreement dated as of December 13, 2000, among Performance Food Group Company, the lenders party thereto and First Union National Bank.

10.32 -- First Amendment to Certain Operative Agreements dated as of December 13, 2000.

10.33 -- Second Amendment to Certain Operative Agreements dated as of December 13, 2000.

21 -- List of Subsidiaries.

23.1 -- Consent of Independent Auditors.

(b) Reports on Form 8-K:

We filed a report on Form 8-K dated November 27, 2000 (as amended by a Form 8-K/A dated December 8, 2000) during the quarter ended December 30, 2000 to report our acquisition of Redi-Cut.

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 March 23, 2001.

PERFORMANCE FOOD GROUP COMPANY

By: /s/ Robert C. Sledd
Robert C. Sledd
Chairman and Chief Executive Officer

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

Signature	Title	Date
/s/ Robert C. Sledd	Chairman, Chief Executive Officer and	March 23, 2001

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

Robert C. Sledd	Director [Principal Executive Officer]	
/s/ C. Michael Gray C. Michael Gray	President, Chief Operating Officer and Director	March 23, 2001
/s/ Roger L. Boeve Roger L. Boeve	Executive Vice President and Chief Financial Officer [Principal Financial Officer and Principal Accounting Officer]	March 23, 2001
/s/ Charles E. Adair Charles E. Adair	Director	March 23, 2001
/s/ Fred C. Goad, Jr. Fred C. Goad, Jr.	Director	March 23, 2001
/s/ Timothy M. Graven Timothy M. Graven	Director	March 23, 2001
/s/ H. Allen Ryan H. Allen Ryan	Director	March 23, 2001
/s/ John E. Stokely John E. Stokely	Director	March 23, 2001

Independent Auditors' Report

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, 2000 and January 1, 2000, 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, 2000. 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 auditing standards generally accepted in the United States of America. 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, 2000 and January 1, 2000, and the results of their operations and their cash flows for each of these fiscal years in the three-year period ended December 30, 2000, in conformity with accounting principles generally accepted in the United States of America.

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

/s/ KPMG LLP

Richmond, Virginia
February 5, 2001

CONSOLIDATED BALANCE SHEETS

(Dollar amounts in thousands, except per share amounts)	2000	1999
ASSETS		
Current assets:		
Cash	\$ 18,530	\$ 5,606
Trade accounts and notes receivable, less allowance for doubtful accounts of \$4,832 and \$4,477	167,444	119,126
Inventories	123,586	108,550
Prepaid expenses and other current assets	4,364	4,030
Deferred income taxes	10,332	5,570
Total current assets	324,256	242,882
Property, plant and equipment, net	143,142	113,930
Goodwill, net of accumulated amortization of \$9,025 and \$5,941	234,421	97,975
Other intangible assets, net of accumulated amortization of \$2,840 and \$1,926	4,890	5,353
Other assets	2,987	1,905
Total assets	\$ 709,696	\$ 462,045
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities:		
Outstanding checks in excess of deposits	\$ 33,330	\$ 14,082
Current installments of long-term debt	1,966	703
Trade accounts payable	134,986	116,821
Accrued expenses	49,769	36,751
Income taxes payable	7,735	3,646
Total current liabilities	227,786	172,003
Long-term debt, excluding current installments	114,492	92,404
Deferred income taxes	9,701	8,294
Total liabilities	351,979	272,701
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; 50,000,000 shares authorized; 17,740,168 and 14,112,151 shares issued and outstanding	177	141
Additional paid-in capital	243,586	102,681
Retained earnings	115,738	88,857
Total shareholders' equity	359,501	191,679
Loan to leveraged employee stock ownership plan	(1,784)	(2,335)
Total shareholders' equity	357,717	189,344
Commitments and contingencies (notes 4,7,8,9,11,12, and 14)	-	-
Total liabilities and shareholders' equity	\$ 709,696	\$ 462,045

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF EARNINGS

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

(Dollar amounts in thousands, except per share amounts)	2000	1999	
Net sales	\$ 2,605,468	\$ 2,055,598	\$ 1,
Cost of goods sold	2,253,277	1,773,632	1,
Gross profit	352,191	281,966	
Operating expenses	302,176	242,625	
Operating profit	50,015	39,341	
Other income (expense):			
Interest expense	(6,593)	(5,388)	
Nonrecurring merger expenses	-	(3,812)	
Gain on sale of investment	-	768	
Other, net	(66)	342	
Other expense, net	(6,659)	(8,090)	
Earnings before income taxes	43,356	31,251	
Income tax expense	16,475	12,000	
Net earnings	\$ 26,881	\$ 19,251	\$
Weighted average common shares outstanding	14,168	13,772	
Basic net earnings per common share	\$ 1.90	\$ 1.40	\$
Weighted average common shares and dilutive potential common shares outstanding	14,769	14,219	
Diluted net earnings per common share	\$ 1.82	\$ 1.35	\$

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF SHAREHOLDERS' EQUITY

(Dollar amounts in thousands)	Common stock Shares	Amount	Additional paid-in capital	Retain earnin
Balance at December 27, 1997	13,333,286	\$ 134	\$ 87,412	\$ 53,7
Employee stock option, incentive and purchase plans and related income tax benefits	125,487	1	1,776	
Principal payments on loan to leveraged ESOP	-	-	-	
Distributions of pooled company	-	-	-	(4
Effect of conforming fiscal year of pooled company	-	-	-	(
Net earnings	-	-	-	17,4
Balance at January 2, 1999	13,458,773	135	89,188	70,6
Issuance of shares for acquisitions	303,928	3	8,507	
Employee stock option, incentive and purchase plans and related income tax benefits	349,450	3	4,986	
Principal payments on loan to leveraged ESOP	-	-	-	
Distributions of pooled company	-	-	-	(1,0
Net earnings	-	-	-	19,2
Balance at January 1, 2000	14,112,151	141	102,681	88,8
Proceeds from offering of common stock	3,220,000	32	124,365	
Issuance of shares for acquisitions	637,344	6	23,360	
Repurchases of common stock	(479,300)	(5)	(11,902)	
Employee stock option, incentive and purchase plans and related income tax benefits	249,973	3	5,082	

Edgar Filing: PERFORMANCE FOOD GROUP CO - Form 10-K

Principal payments on loan to leveraged ESOP	-	-	-	
Net earnings	-	-	-	26,8
Balance at December 30, 2000	17,740,168	\$ 177	\$	243,586 \$ 115,7

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS

	2000	1999
(Dollar amounts in thousands)		
Cash flows from operating activities:		
Net earnings	\$ 26,881	\$ 19,25
Adjustments to reconcile net earnings to net cash provided by operating activities:		
Depreciation	13,879	11,08
Amortization	3,998	3,05
Loss (gain) on disposal of property, plant and equipment	302	(3
Deferred income taxes	(1,520)	22
ESOP contributions applied to principal of ESOP debt	551	53
Gain on sale of investment	-	(76
Changes in operating assets and liabilities, net of effects of companies acquired:		
Decrease (increase) in trade accounts and notes receivable	(37,639)	21
Increase in inventories	(11,112)	(15,51
Decrease (increase) in prepaid expenses and other current assets	174	
Increase in trade accounts payable	8,918	17,16
Increase in accrued expenses	6,565	7,11
Increase (decrease) in income taxes payable	3,589	4,67
Total adjustments	(12,295)	27,75
Net cash provided by operating activities	14,586	47,00
Cash flows from investing activities, net of effects of companies acquired:		
Net cash paid for acquisitions	(124,193)	(18,06
Purchases of property, plant and equipment	(30,992)	(26,00
Proceeds from sale of property, plant and equipment	1,382	1,06
Decrease (increase) in intangibles and other assets	315	(36
Proceeds from sale		