SERVIDYNE, INC.
Form DEF 14A
August 13, 2008

Table of Contents

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549
SCHEDULE 14A

Proxy Statement Pursuant to Section 14(a)
of the Securities Exchange Act of 1934

Filed by the Registrant þ
Filed by a Party other than the Registrant o
Check the appropriate box:

o Preliminary Proxy Statement
þ Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to §240.14a-12

o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-(e)(2))**

SERVIDYNE, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):
þ No fee required.
o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

(5) Total fee paid:

o Fee paid previously with preliminary materials.
o Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

TABLE OF CONTENTS

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS
PROXY STATEMENT
GENERAL INFORMATION
ELECTION OF DIRECTORS
MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS
NOMINATION OF DIRECTORS
COMPENSATION OF DIRECTORS
PRINCIPAL HOLDERS OF THE COMPANY S SECURITIES AND HOLDINGS BY EXECUTIVE OFFICERS AND DIRECTORS
SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE
APPROVAL AND ADOPTION OF AN AMENDMENT TO THE ARTICLES OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK
EQUITY COMPENSATION PLAN INFORMATION
COMPENSATION OF EXECUTIVE OFFICERS
OUTSTANDING EQUITY AWARDS
AUDIT COMMITTEE REPORT
INFORMATION CONCERNING THE COMPANY S INDEPENDENT ACCOUNTANT
CORPORATE GOVERNANCE AND COMMUNICATING WITH THE BOARD OF DIRECTORS
SHAREHOLDER PROPOSALS
OTHER MATTERS

Table of Contents

SERVIDYNE, INC.
Atlanta, Georgia

NOTICE OF ANNUAL MEETING OF SHAREHOLDERS

To Be Held On September 16, 2008

The Annual Meeting of Shareholders of SERVIDYNE, INC. (the Company) will be held on Tuesday, September 16, 2008, at 11:00 A.M., Atlanta time, at the Company s Corporate Headquarters, 1945 The Exchange, Suite 300, Atlanta, Georgia, for the purpose of considering and voting upon the following:

(1) The election of six (6) Directors to constitute the Board of Directors until the next Annual Meeting and until their successors are qualified and elected.

(2) The approval of a proposal to amend the Company s Articles of Incorporation to increase the number of authorized shares of the Company s common stock, par value $1.00 per share (the Common Stock), from 5,000,000 shares to 10,000,000 shares.

(3) Such other matters as may properly come before the Meeting or any and all adjournments thereof.

The Board of Directors has fixed the close of business on July 14, 2008, as the Record Date for the determination of the shareholders who will be entitled to notice of and to vote at this Annual Meeting of Shareholders or any and all adjournments thereof.

BY ORDER OF THE BOARD OF DIRECTORS

Alan R. Abrams
Chairman of the Board
President and Chief Executive Officer

Atlanta, Georgia
August 13, 2008

IMPORTANT YOUR PROXY IS ENCLOSED.
PLEASE DATE, SIGN AND MAIL THE ENCLOSED PROXY PROMPTLY.
NO POSTAGE IS REQUIRED IF MAILED
IN THE UNITED STATES IN THE ACCOMPANYING ENVELOPE.

SERVIDYNE, INC.

**1945 The Exchange
Suite 300
Atlanta, Georgia 30339-2029**

PROXY STATEMENT

The following information is furnished in connection with the solicitation of proxies by the Board of Directors of the Company for the Annual Meeting of Shareholders (the Meeting) to be held on Tuesday, September 16, 2008, at 11:00 A.M., Atlanta time, at the Company s Corporate Headquarters, 1945 The Exchange, Suite 300, Atlanta, Georgia. A copy of the Company s Annual Report for the fiscal year ended April 30, 2008, and a proxy for use at the Meeting are enclosed with this Proxy Statement. This Proxy Statement and the enclosed proxy first were mailed to shareholders on or about August 13, 2008.

GENERAL INFORMATION

Any proxy given pursuant to this solicitation may be revoked without compliance with any other formalities by any shareholder who attends the Meeting and gives oral notice of his or her election to vote in person. In addition, any proxy given pursuant to this solicitation may be revoked prior to the Meeting by delivering to the Secretary of the Company, at the address set forth above, a notice of revocation or a duly executed proxy for the same shares bearing a later date. All proxies of shareholders solicited by the Company, which are properly executed and received by the President of the Company prior to the Meeting and which are not revoked, will be voted at the Meeting. The shares represented by such proxies will be voted in accordance with the instructions thereon, and unless specifically instructed to vote otherwise, the individuals named in the enclosed proxy will vote to elect all the nominees for Director as set forth in this Proxy Statement. Abstentions and broker non-votes will be included in determining whether a quorum is present at the Meeting, but will otherwise have no effect on the election of the Directors. Abstentions and broker non-votes will have the effect of negative votes on the proposal to increase the number of the Company s authorized shares of Common Stock. Broker non-votes are proxies received from brokers or other nominees holding shares on behalf of their clients who have not received specific voting instructions from their clients with respect to non-routine matters. A system administered by the Company s transfer agent will tabulate the votes cast.

The Company pays the cost of soliciting proxies. Copies of solicitation materials may be furnished to banks, brokerage houses, and other custodians, nominees and fiduciaries, for forwarding to beneficial owners of shares of the Common Stock; and normal handling charges may be paid for such forwarding service. In addition to solicitations by mail, Directors and regular employees of the Company, at no additional compensation, may assist in soliciting proxies by telephone or other means. The Company has engaged Morrow & Co., LLC, located at 470 West Avenue, Stamford, Connecticut, a professional proxy solicitation firm, to provide customary solicitation services for a fee of $10,000 plus expenses.

As of the Record Date for the Meeting, there were 3,739,059 shares (adjusted for June 2008 stock dividend) of the Common Stock outstanding and entitled to vote. Each holder of the Common Stock, the only outstanding class of voting stock of the Company, is entitled to one (1) vote per share owned on the Record Date.

Table of Contents

ELECTION OF DIRECTORS

The Board of Directors recommends the election of the six (6) nominees listed below to constitute the entire Board, to hold office until the next Meeting of Shareholders and until their successors are elected and qualified. If, at the time of the Meeting, any of such nominees should be unable or unwilling to serve, the persons named in the proxy will vote for such substitutes or vote to reduce the number of Directors for the ensuing year in accordance with his judgment of what is in the best interest of the Company. Management has no reason to believe that any substitute nominee or nominees or reduction in the number of Directors for the ensuing year will be required. The affirmative vote of a plurality of the votes cast at the Meeting is required to elect the Directors. The Board has determined that Samuel E. Allen, Gilbert L. Danielson, Herschel Kahn and Robert T. McWhinney, Jr. are independent Directors within the meaning of the listing standards of the Nasdaq Stock Market.

The following information relating to: (1) age as of August 27, 2008; (2) directorships in other publicly-held companies; (3) positions with the Company; and (4) principal employment has been furnished by the respective nominees. Except as otherwise indicated, each nominee has been or was engaged in his present or last principal employment, in the same or a similar position, for more than five (5) years.

NAME	INFORMATION ABOUT NOMINEES FOR DIRECTOR
Alan R. Abrams	A Director of the Company since 1992, Mr. Abrams has been Chairman of the Board since April 2006, Chief Executive Officer since 1999, and President since 2000. He served as Co-Chairman of the Board from 1998 to April 2006. Mr. Abrams is 53.
J. Andrew Abrams	A Director of the Company since 1992, Mr. Abrams has been Executive Vice President since May 2006. He served as Co-Chairman of the Board from 1998 to April 2006, and Vice-President-Business Development from 2000 to April 2006. Mr. Abrams is 48.
Samuel E. Allen	A Director of the Company since 2003, Mr. Allen has served as Chairman of Globalt, Inc., an investment management company, since 1990, and was Chief Executive Officer of that company from 1990 to 2004. He is also a director of Chattem, Inc., a marketer and manufacturer of over-the-counter healthcare products, toiletries and dietary supplements. Mr. Allen is 72.
Gilbert L. Danielson	A Director of the Company since 2000, Mr. Danielson has served as Executive Vice President, Chief Financial Officer and Director of Aaron Rents, Inc., a company engaged in the lease ownership, rental and specialty retailing of consumer electronics, furniture, household appliances, and accessories, since 1990. Mr. Danielson is 62.
Herschel Kahn	A Director of the Company since March 2008, Mr. Kahn has served as owner and managing principal of HK Enterprises, a company engaged in management and executive development, succession planning, labor relations, contract negotiations, executive compensation, and executive coaching and counseling, since 1993. Mr. Kahn is 74.
Robert T. McWhinney, Jr.	A Director of the Company since 2000, Mr. McWhinney has been President and Chief Executive Officer of Douglass, McCarthy & McWhinney, Inc., a consulting company, since 2003. Mr. McWhinney is 68.

Alan R. Abrams and J. Andrew Abrams are brothers. There are no other family relationships between any Executive Officers, Directors or persons nominated to be Directors of the Company.

MEETINGS AND COMMITTEES OF THE BOARD OF DIRECTORS

During the fiscal year ended April 30, 2008, the Board of Directors held five (5) meetings, the Audit Committee held four (4) meetings, the Nominating and Corporate Governance Committee held three (3) meetings, the Compensation Committee held four (4) meetings, and a Special Committee held six (6) meetings. All of the Directors who served during the fiscal year ended April 30, 2008, attended at least seventy-five percent (75%) of the aggregate of all Board meetings and the meetings of each committee of the Board on which he served, if any. While the Company invites the Directors to attend the Annual Meeting of Shareholders, the Company does not have a formal policy regarding Director attendance. All Directors attended the Annual Meeting last year.

The Board s standing Audit Committee, Compensation Committee, and Nominating and Corporate Governance Committee are each composed entirely of independent Directors as defined in the listing standards of the Nasdaq Stock Market. These committees all operate pursuant to written charters adopted

by the Board of Directors, which are available at the Company s Website, www.servidyne.com, through the Investor Relations and then the Corporate Governance links.

The Audit Committee currently consists of Mr. Allen, Mr. Danielson, Chairman, and Mr. McWhinney. The Board has determined that Mr. Danielson is an audit committee financial expert within the meaning of the rules of the Securities & Exchange Commission. The primary function of the Audit Committee is to assist the Board of Directors in fulfilling its financial and other oversight responsibilities by serving as an independent and objective party to oversee, monitor and appraise: (1) the integrity of the Company s financial statements and other external financial information, financial reporting process, and internal controls; (2) the Company s auditing process, including all engagements of the Company s independent accountants, the internal auditors, and the performance of financial management; and (3) the Company s ethical and legal compliance. The Audit Committee has the sole authority to appoint, compensate, retain, and terminate the independent accountants, and to approve all audit and permitted non-audit services, if any, provided by the independent accountants.

The Compensation Committee currently consists of Mr. Allen, Mr. Kahn, and Mr. McWhinney, Chairman. The primary function of the Compensation Committee is to assist the Board of Directors in fulfilling its oversight responsibilities with respect to executive compensation. This Committee is authorized to determine the compensation of the Company s Executive Officers and to administer the Company s 2000 Stock Award Plan. Although management may participate in discussions at the Compensation Committee meetings and provide information for consideration, management does not participate in the voting or decision-making. The CEO makes recommendations regarding the compensation of the Executive Officers other than himself. The CEO is not present during the deliberations or voting on his compensation. In determining the compensation of the Executive Officers, including the Named Executive Officers, the Compensation Committee considers not only the recommendations of the CEO, but also objective measurements of business performance, the accomplishment of strategic and financial objectives, the development of management talent within the Company, enhancement of shareholder value, and other matters relevant to the short-term and the long-term success of the Company.

The Nominating and Corporate Governance Committee currently consists of Mr. Allen, Chairman, Mr. Danielson, and Mr. McWhinney. The primary function of the Nominating and Corporate Governance Committee is to assist the Board of Directors in fulfilling its responsibilities with respect to: (1) Board and Committee membership, organization and function; (2) Director qualifications, performance and compensation; and (3) corporate governance. The Committee is responsible for recommending to the Board the slate of nominees to be recommended to the shareholders for election at the Meeting.

The Board also has a standing Executive Committee, currently consisting of Mr. Alan R. Abrams and Mr. J. Andrew Abrams. The Executive Committee is empowered to take actions that do not require the approval of the full Board of Directors, subject to the authority of the other Board committees and the requirements of applicable law. All actions of the Executive Committee are subsequently submitted to the full Board of Directors for affirmation. The Executive Committee did not meet during fiscal 2008, but did execute several unanimous consents in lieu of meetings.

Table of Contents

NOMINATION OF DIRECTORS

Nomination Process. The Nominating and Corporate Governance Committee is responsible for considering and making recommendations to the Board of Directors concerning the nominees to be recommended to the shareholders in connection with the Company s Annual Meeting of Shareholders and nominees for appointments to fill any vacancy on the Board or fill any newly created Board seats. To fulfill these responsibilities, the Nominating and Corporate Governance Committee periodically considers and makes recommendations to the Board of Directors regarding what experience, talents, skills and other characteristics the Board as a whole should possess in order to maintain its effectiveness. In determining whether to nominate an incumbent Director for re-election, the Board of Directors and the Nominating and Corporate Governance Committee evaluate each incumbent s continued service in light of the Board s collective requirements at the time such Director comes up for re-election.

When the need for a new Director arises (whether because of a vacancy or because of a newly created Board seat), the Nominating and Corporate Governance Committee proceeds by whatever means it deems appropriate to identify a qualified candidate or candidates. The Committee reviews the qualifications of each candidate, and final candidates are generally interviewed by one or more Board members. The Committee then makes a recommendation to the Board based on its review, the results of interviews with the candidate, and all other available information. The full Board of Directors makes the final decision about whether to elect such candidate to the Board.

Director Qualifications. The Nominating and Corporate Governance Committee is responsible for considering and making recommendations to the Board of Directors concerning the criteria for the selection of qualified Directors. At a minimum, Directors should have high moral character and personal integrity, demonstrated accomplishment in his or her field, and the ability and desire to devote sufficient time to carry out the duties of a Director. In addition to these minimum qualifications for candidates, in evaluating candidates the Board of Directors and the Committee may consider all information relevant in their business judgment to the decision of whether to nominate a particular candidate for a particular Board seat, taking into account the then-current composition of the Board of Directors. These factors may include but are not limited to: a candidate s professional and educational background, reputation, industry knowledge and business experience, and the relevance of those characteristics to the Company and the Board of Directors; whether the candidate will complement or contribute to the mix of talents, skills and other characteristics needed to maintain the Board s effectiveness; the candidate s ability to fulfill the responsibilities as a Director and as a member of one or more of the Board s standing committees; whether the candidate is independent; and whether the candidate is financially literate or a financial expert.

Shareholder Nominations. Nominations of individuals for election to the Board of Directors at any meeting of shareholders at which Directors are to be elected may be made by any Company shareholder entitled to vote for the election of Directors at that meeting by complying with the procedures set forth in Section 10 of the Company s Bylaws. Section 10 provides that notice of proposed shareholder nominations must be given to the Secretary of the Company at the Company s principal executive offices not less than sixty (60) days nor more than ninety (90) days prior to the meeting at which Directors are to be elected, unless the notice of meeting or public disclosure of the date of the meeting is given less than sixty (60) days prior to the meeting, in which case the notice of nomination must be received not later than the tenth (10th) day following the date on which the notice of meeting was mailed to shareholders or such public disclosure was made. The notice of nomination must contain information about each proposed nominee, including age, address, principal occupation, the number of shares of stock

of the Company beneficially owned by such nominee, and such other information as would be required to be disclosed under the Securities Exchange Act of 1934 (the Exchange Act), in connection with any acquisition of shares by such nominee or in connection with the solicitation of proxies by such nominee for his or her election as a Director. Information must also be disclosed by and about the shareholder proposing to nominate that person. The chairman of a shareholder meeting may refuse to acknowledge any nomination not made in compliance with the foregoing procedure.

The Nominating and Corporate Governance Committee will consider recommending to the Board of Directors that it include in the Board s slate of Director nominees to be presented to a meeting of shareholders a nominee submitted to the Company by a shareholder who has beneficially held at least five percent (5%) of the Company s outstanding Common Stock for at least two (2) years. In order for the Nominating and Corporate Governance Committee to consider such nominees, the nominating shareholder should submit the information about the nominee and the nominating shareholder, as described in Section 10 of the Bylaws, to the Secretary of the Company at the Company s principal executive offices within the time period prescribed by Rule 14a-8 under the Exchange Act generally, at least one hundred twenty (120) days before the first anniversary of the date that the Company s Proxy Statement was released to shareholders in connection with the previous year s Annual Meeting of Shareholders. That deadline can be found herein under Shareholder Proposals. A nominating shareholder should expressly indicate that such shareholder desires that the Board of Directors and the Nominating and Corporate Governance Committee consider such shareholder s nominee for inclusion with the Board s slate of nominees a meeting of shareholders, and should submit information demonstrating that the shareholder has beneficially owned and continues to beneficially own at least five percent (5%) of the Company s outstanding Common Stock for at least two (2) years. The nominating shareholder and his or her nominee should undertake to provide, or consent to the Company obtaining, all other information the Board of Directors and the Nominating and Corporate Governance Committee may request in connection with their evaluations of the nominee.

A nominee submitted to the Company by a qualified shareholder must satisfy the minimum qualifications for Director described above. In addition, in evaluating shareholder nominees for inclusion in the Board s slate of nominees, the Board of Directors and the Nominating and Corporate Governance Committee may consider any relevant information, including: the factors described above; whether there are or will be any vacancies on the Board of Directors; the size of the nominating shareholder s Company holdings and the length of time such shareholder has owned such holdings; whether the nominee is independent of the nominating shareholder, and able to represent the interests of the Company and its shareholders as a whole; and the interests and/or intentions of the nominating shareholder.

COMPENSATION OF DIRECTORS

Effective June 1, 2007, each independent Director has been paid a retainer of $700 per month and a fee of $1,500 for each Board of Directors meeting attended. In addition, independent Directors who were members of a committee of the Board of Directors has been paid a fee of $700 for each committee meeting attended. The chairman of the Audit Committee has been paid an annual retainer fee of $10,000. The chairman of the Compensation Committee and the chairman of the Nominating and Corporate Governance Committee were each paid an annual retainer fee of $5,000. The chairman of the Special Committee was paid a one-time monthly retainer fee of $1,000 for the months in which such meetings of the Special Committee were held. Inside Directors receive no fee or other renumeration of any kind for their service on the Board of Directors or on a committee of the Board of Directors.

Table of Contents

Prior to June 1, 2007, each independent Director was paid a retainer of $600 per month and a fee of $1,300 for each Board of Directors meeting attended. In addition, independent Directors who were members of a committee of the Board of Directors were paid a fee of $600 for each committee meeting attended.

The compensation paid to the Company s independent Board of Directors relating to service in fiscal 2008 was as follows:

Name	Fees Earned or Paid in Cash ($)(1)	SARs Awards ($)(2)	Total ($)(3)
Samuel E. Allen	34,583	6,018	40,601
Gilbert L. Danielson	37,700	6,018	43,718
Herschel Kahn	5,450		5,450
Robert T. McWhinney, Jr.	32,283	6,018	38,301

(1) The Company maintains a deferred compensation plan (the Deferred Compensation Plan) under which each member of the Board of Directors may elect to defer to a future date receipt of all or any part of his compensation as a Director and/or as a member of the committees of the Board. For purposes of the Deferred Compensation Plan, compensation means the retainer fees and meeting fees payable to such Directors by the Company in their capacities as Directors or as members of the committees of the Board of Directors, respectively, but excludes awards of restricted stock, stock options, stock appreciation rights, or other equity incentives. A committee member may not participate in any decision relating in any way to his individual rights or obligations as a participant under the Deferred Compensation Plan. For the year ended April 30, 2008, three (3) members of the Board of Directors participated in the Deferred Compensation Plan.

(2) Represents the compensation costs of Stock Appreciation Rights (SARs) for financial reporting purposes for fiscal year 2008 under Statement of Financial Accounting Standards 123 (revised 2004), Share-Based Payment, (SFAS 123R), excluding any estimates for forfeitures. See Note 2 to the consolidated financial statements in the Company s Annual Report on Form 10-K for the fiscal year ending April 30, 2008, for the assumptions made in determining the values under SFAS 123R. There can be no assurance that the SFAS 123R amounts will ever be realized.

The SARs awarded have a five-year vesting period, in which thirty percent (30%) of the SARs will vest on the third (3rd) annual anniversary of the date of grant, thirty percent (30%) will vest on the fourth (4th) annual anniversary of the date of grant, and forty percent (40%) will vest on the fifth (5th) annual anniversary of the date of grant, with an early vesting provision by which one hundred percent (100%) of the SARs will vest immediately at such time as the Company s stock price closes at or above $19.05 per share for ten (10) consecutive trading days or upon a change in control of the Company.

Table of Contents

The number of outstanding stock options (adjusted for stock dividend) and SARs (adjusted for stock dividend) held by each of the Company s independent Directors as of April 30, 2008, is summarized in the table below:

Name	Number of Securities Underlying Unexercised Options (#) Exercisable	Number of Securities Underlying Unexercised SARs (#) Unexercisable
Samuel E. Allen	11,550	21,000
Gilbert L. Danielson	11,550	21,000
Herschel Khan		
Robert T. McWhinney, Jr.	11,550	21,000

(3) Independent Directors do not receive any other perquisites or other compensation.

The Directors are reimbursed for all reasonable out-of-pocket expenses incurred in attending to Board affairs and Company business.

8

PRINCIPAL HOLDERS OF THE COMPANY S SECURITIES AND HOLDINGS BY EXECUTIVE OFFICERS AND DIRECTORS

The following table sets forth the beneficial ownership (adjusted for stock dividend), as of July 1, 2008, of the Common Stock by: (1) persons (as that term is defined by the Securities and Exchange Commission) who beneficially own more than five percent (5%) of the outstanding shares of such stock; (2) Directors; (3) Executive Officers named in the Summary Compensation Table below; and (4) all Executive Officers and Directors of the Company as a group. The following percentages of outstanding shares total more than one hundred percent (100%), because they are based on SEC beneficial ownership rules, the application of which can result in the same shares being owned beneficially by more than one person. Unless otherwise stated below, the address of each holder listed below is 1945 The Exchange, Suite 300, Atlanta, Georgia 30339.

Name and Address	Shares of Common Stock Beneficially Owned	Percentage Outstanding Shares
David L. Abrams	863,458(1)	23.09%
Alan R. Abrams	769,725(2)(3)(4)	19.90%
Kandu Partners L.P. Post Office Box 53407 Atlanta, Georgia 30355	707,561	18.92%
J. Andrew Abrams	654,113(2)(5)	17.44%
Abrams Partners, L.P. 7525 Princeton Trace Atlanta, Georgia 30328	577,500(2)	15.45%
Ann U. Abrams 2828 Peachtree Road, Apt 2901 Atlanta, Georgia 30305	322,417	8.62%
Tamalpais Master Fund, Ltd Clifton House, 75 Fort Street PO Box 190 GT, Georgetown Grand Cayman, Cayman Islands	198,549(6)	5.31%
M. Todd Jarvis	70,158(7)	1.85%
Melinda S. Garrett	60,060(8)	1.58%
Samuel E. Allen	12,705(9)	*
Gilbert L. Danielson	12,705(9)	*
Herschel Kahn	1,050	*
Robert T. McWhinney, Jr.	16,149(9)(10)	*
All Executive Officers and Directors as a group (9 persons)	1,048,502	25.86%

* Less than 1%

(1) Includes 707,561 shares (18.92% of outstanding shares) owned by Kandu Partners, L.P., which David L. Abrams beneficially owns due to his management of the general partner of the partnership.

9

---

(2) Includes 577,500 shares (15.45% of the outstanding shares) owned by Abrams Partners, L.P., which Alan R. Abrams and J. Andrew Abrams each beneficially own due to their joint control of the general partner of such partnership.

(3) Includes 115 shares owned by Mr. Alan R. Abrams wife.

(4) Includes currently exercisable options to purchase 127,958 shares of the Common Stock.

(5) Includes currently exercisable options to purchase 12,458 shares of the Common Stock.

(6) Based on Schedule 13D (adjusted for stock dividend) filed on May 19, 2008, by Tamalpais Master Fund, Ltd. and its investment manager, Tamalpais Management Group LP, whose principal executive office is located at 600 California Street, Suite 540, San Francisco, California 94108.

(7) Includes currently exercisable options to purchase 54,285 shares of the Common Stock.

(8) Includes currently exercisable options to purchase 57,750 shares of the Common Stock.

(9) Includes currently exercisable options to purchase 11,550 shares of the Common Stock.

(10) Includes 1,155 shares owned jointly with Mr. McWhinney s wife.

SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE

Section 16(a) of the Securities Exchange Act of 1934 requires the Company s Directors, certain officers, and persons who beneficially own more than ten percent (10%) of the outstanding Common Stock of the Company to file with the Securities and Exchange Commission reports of changes in ownership of the Common Stock of the Company held by such persons. These persons are also required to furnish the Company with copies of all forms they file under this statute. To the Company s knowledge, based solely on a review of the copies of such reports furnished to the Company and on written representations of such persons, all required forms were filed on time with the exception of Mr. McWhinney inadvertently filing a Form 4 late related to the purchase of shares of Common Stock.

APPROVAL AND ADOPTION OF AN AMENDMENT TO THE ARTICLES OF INCORPORATION TO INCREASE THE NUMBER OF AUTHORIZED SHARES OF COMMON STOCK

General

The Company s Articles of Incorporation currently provide for authorized capital stock consisting of 5,000,000 shares of Common Stock, par value $1.00 per share. This number of authorized shares of Common Stock has not been increased since 1984.

As of July 1, 2008, the Company had 3,739,059 shares of Common Stock issued and outstanding, and options, SARs and warrants to acquire an aggregate of 1,099,886 shares of Common Stock. This totals 4,838,945 shares of Common Stock issued and reserved for issuance under outstanding awards and warrants, which represents approximately 97% of the total 5,000,000 shares of currently authorized Common Stock.

The Board of Directors believes that it is necessary and prudent for the Company to amend its Articles of Incorporation to increase the Company s authorized shares of the Common Stock to 10,000,000 shares to allow the Company to issue additional shares of Common Stock for the purposes described below, and for any other lawful purpose. Accordingly, on June 5, 2008, the Board of Directors unanimously approved,

subject to shareholder approval, an amendment to the Articles of Incorporation to increase the number of authorized shares of the Common Stock to 10,000,000 shares (the Amendment).

Purpose and Effect of the Amendment

The proposed increase in the number of authorized shares of the Common Stock is deemed advisable by the Board of Directors in order to, among other purposes:

Allow the Company the flexibility of using Common Stock to raise capital and/or as consideration in acquiring other businesses. Since 2000, the Company has reinvented its business by assembling a new business platform focused on providing products and services that enable our customers to gain control of and reduce the operating costs of their facilities. The most recent in this series of acquisitions was the June 2008 acquisition of Atlantic Lighting and Supply Company (ALS), a distributor of energy efficient lighting products. The proposed increase in authorized shares for which the Company seeks shareholder approval is not related to the acquisition of ALS, which transaction has already been consummated and for which all of the related stock consideration has already been delivered. The Company is continuously seeking opportunities to add more expertise and proprietary products and services to further enhance its core capabilities through additional acquisitions of businesses. Such acquisitions may be effected using shares of Common Stock or other securities convertible into Common Stock and/or by using capital that may need to be raised by selling such securities. The current small number of available authorized shares of Common Stock severely constrains the Company s ability to effect acquisitions of businesses using shares of its Common Stock or issuing shares to raise capital to fund such acquisitions or for other purposes. The Company does not have any agreement, arrangement or understanding at this time with respect to any specific acquisition for which the authorized shares would be issued.

Allow the Company to declare stock splits and/or stock dividends. The Company effected a 10% stock dividend in August 2005 and a 5% stock dividend in June 2008. The Board of Directors believes that effecting these stock dividends had a positive impact on the liquidity for the Common Stock in trading on the Nasdaq Global Market. The Board of Directors believes that it would be in the best interests of the Company to have sufficient authorized shares of Common Stock available to allow for additional stock dividends or stock splits in the future if the Board should decide at that time that it was advisable to effect such dividends or splits.

Allow the Company to provide equity incentive compensation to its employees, including those of newly acquired businesses. The Board believes that it is critical to incentivize its officers and employees to increase the Company s revenues and profitability, and as a result, the Company s market value, through equity incentive awards. The Company s growth strategy requires that these incentives be provided to new employees of acquired businesses, to new hires to upgrade key areas of the Company s operations, and to existing employees that are being asked to increase their and the Company s level of performance. The Board of Directors believes that the Company s ability to achieve its growth strategy will be impaired without additional shares of authorized Common Stock that could be used to provide such equity incentives.

If the Amendment is approved, the additional authorized but unissued shares of the Common Stock may generally be issued from time to time for such proper corporate purposes as may be determined by the Board of Directors, without further action or authorization by the shareholders, except for some limited

circumstances where shareholder approval is required by law or the listing standards of the Nasdaq Global Market.

The possible future issuance of shares of equity securities consisting of Common Stock or securities convertible into Common Stock, such as the issuance of any stock options or stock appreciation rights, could affect the current shareholders of the Company in a number of ways, including the following:

- diluting the voting power of the current holders of Common Stock;
- diluting the market price of the Common Stock, to the extent that the shares of Common Stock are issued and sold at prices below current trading prices of the Common Stock, or if the issuance consists of equity securities convertible into Common Stock, to the extent that the securities provide for the conversion into Common Stock at prices that could be below current trading prices of the Common Stock;
- diluting the earnings per share and book value per share of the outstanding shares of Common Stock; and
- making the payment of dividends on Common Stock potentially more expensive.

The increase in authorized shares of Common Stock may have an incidental anti-takeover effect, although that is not the intention of this proposal. Additional shares could be used to dilute the stock ownership of parties seeking to obtain control of the Company, and the increase in authorized shares discourages the possibility of, or renders more difficult, certain mergers, tender offers or proxy contests. For example, without further shareholder approval, the Board of Directors could sell shares of the Common Stock in a private transaction to purchasers who would oppose a takeover, thereby potentially preventing a transaction favored by a majority of independent shareholders under which shareholders would have received a premium for their shares over then-current market prices. The Company is not aware of any pending or proposed effort to obtain control or change management of the Company.

If the Amendment is approved by the shareholders at the Meeting, the Amendment will become effective upon the filing of the Articles of Amendment to the Articles of Incorporation with the Secretary of State of the State of Georgia.

No Appraisal Rights

Under Georgia law, shareholders are not entitled to appraisal rights with respect to this proposal.

Vote Required and Recommendation of the Board

The affirmative vote of the holders of a majority of the issued and outstanding shares of the Common Stock of the Company is required to increase the number of authorized shares of the Company s Common Stock from 5,000,000 shares to 10,000,000 shares.

The Board of Directors recommends a vote FOR approval of the Amendment.

EQUITY COMPENSATION PLAN INFORMATION

The 2000 Stock Award Plan (the 2000 Stock Award Plan) was adopted by the Board of Directors in May 2000 and subsequently approved by the shareholders in August 2000. Awards granted under the 2000 Stock Award Plan may be incentive stock options; nonqualified stock options; shares of the Common Stock, which may be nontransferable and/or forfeitable under restrictions, terms and conditions set forth in

12

Table of Contents

the award agreement; SARs; or performance shares. The number of shares of the Common Stock with respect to which awards may be granted and outstanding under the 2000 Stock Award Plan is a maximum of 1,155,000 shares (adjusted for stock dividend). The Company has no other compensation plans or arrangements under which equity securities are authorized for issuance. The following table sets forth certain information regarding the 2000 Stock Award Plan as of April 30, 2008 (adjusted for stock dividend):

Plan Category	(a) Number of securities to be issued upon exercise of outstanding options and SARs	(b) Weighted-average exercise price of outstanding options and SARs	(c) Number of securities remaining available for future issuance (excluding securities reflected in column(a))
Equity compensation plan approved by shareholders	842,636	$ 4.32	230,173
Equity compensation plan not approved by shareholders	52,500	$ 5.00	
TOTAL	895,136		230,173

COMPENSATION OF EXECUTIVE OFFICERS

The following table sets forth all compensation earned by the Chief Executive Officer (CEO) and each of the Company s other two (2) highest paid Executive Officers for services rendered in all capacities during the Company s last two (2) fiscal years:

Table of Contents

Going forward, we will continue to be focused on managing the growth we are generating in our business, adding new capacity and driving operational improvements. We continue to seek innovative means of servicing our customers to distinguish ourselves from others in the marketplace.

Results of Operations

Net Sales

Net Sales (In thousands)	2008 Quarter Net Sales	2008 Quarter % of Total	2007 Quarter Net Sales	2007 Quarter % of Total
Broadline	$ 972,026	58.1%	$ 915,962	59.9%
Customized	700,106	41.9%	614,143	40.1%
Intersegment*	(237)		(361)	
Net sales	$1,671,895	100.0%	$1,529,744	100.0%

* *Intersegment sales are sales between the segments, which are eliminated in consolidation.*

Consolidated. In the 2008 quarter, net sales increased $142.2 million, or 9.3%, to $1.7 billion. We estimated that inflation was approximately 6% in the 2008 quarter. Both segments are discussed in more detail in the following paragraphs.

Broadline. In the 2008 quarter, Broadline net sales increased $56.1 million, or 6.1%, to $972.0 million, compared to $916.0 million in the 2007 quarter. We estimated that food price inflation of approximately 7%, primarily in the dairy, meat and poultry product categories, drove the increase in Broadline s net sales in the 2008 quarter.

Broadline net sales represented 58.1% and 59.9% of our net sales in the 2008 and 2007 quarters, respectively. The decrease as a percentage of our net sales was primarily due to the growth in Customized sales, as described below.

Customized. In the 2008 quarter, Customized net sales increased $86.0 million, or 14.0%, to $700.1 million, compared to $614.1 million in the 2007 quarter. The increase in the 2008 quarter was primarily due to the rollout of approximately $250 million in annualized new business that began in the fourth quarter of 2007 and continued into the 2008 quarter, of which approximately $58 million contributed to the 2008 quarter. We estimated that food price inflation of approximately 5% contributed to our sales growth in the 2008 quarter. Customized net sales represented 41.9% and 40.1% of our net sales in the 2008 and 2007 quarters, respectively. The increase in the 2008 quarter was due to the addition of new business and inflation, as discussed above.

Cost of goods sold

Consolidated. In the 2008 quarter, cost of goods sold increased $127.4 million, or 9.5%, to $1.5 billion. Cost of goods sold as a percentage of net sales, or the cost of goods sold ratio, was 87.4% in the 2008 quarter, compared to 87.2% in the 2007 quarter. The increase in the cost of goods sold ratio in the 2008 quarter was primarily the result of inflation and a sales mix shift in our Broadline segment.

Broadline. Our Broadline segment s cost of goods sold as a percentage of net sales in the 2008 quarter increased compared to the 2007 quarter due to inflation and sales mix changes, partially offset by improvements made related to our procurement initiatives. While inflation negatively impacted our percentage margin for the quarter, our gross profit dollars were not as impacted by the significant inflation in dairy, meat and poultry categories. This is due in large part to the customary pricing of multi-unit and center-of-the-plate product categories, both of which are generally priced on a fee per case or pound basis versus a percentage mark-up on cost.

Customized. Our Customized segment s cost of goods sold as a percentage of net sales in the 2008 quarter remained flat as compared to the 2007 quarter.

Table of Contents

Gross profit

In the 2008 quarter, gross profit increased $14.7 million, or 7.5%, to $210.1 million, compared to $195.4 million in the 2007 quarter. Gross profit margin was 12.6% in the 2008 quarter, compared to 12.8% in the 2007 quarter. The decline in our gross profit margin in the 2008 quarter is primarily due to inflation; however, as noted above, even though inflation caused our gross profit margin to decline, our gross profit dollars were not impacted as much by inflation as our gross profit margin.

Operating expenses

Consolidated. In the 2008 quarter, operating expenses increased $19.1 million, or 10.5%, to $201.6 million, compared to $182.6 million in the 2007 quarter. Operating expenses as a percentage of net sales were 12.1% in the 2008 quarter, compared to 11.9% in the 2007 quarter. Our operating expenses and operating expense ratio increased in the 2008 quarter primarily due to costs associated with the closing of our Magee, Mississippi Broadline facility, costs associated with our previously discussed pending merger with VISTAR and increased stock compensation and fuel costs, partially offset by improved operating efficiencies.

Broadline. Our Broadline segment s operating expenses and operating expenses as a percentage of sales increased in the 2008 quarter from the 2007 quarter, primarily due to costs associated with our facility closing and increased fuel costs. These costs are partially offset by improved operating efficiencies, primarily as a result of increased warehouse and transportation productivity.

Customized. Our Customized segment s operating expenses as a percentage of sales decreased slightly in the 2008 quarter compared to the 2007 quarter. Increased sales and improved operating efficiencies were mostly offset by increased fuel costs.

Corporate. Our Corporate segment s operating expenses increased in the 2008 quarter compared to the 2007 quarter primarily as a result of $4.4 million in costs associated with our previously discussed pending merger with VISTAR and increased stock compensation costs.

Operating Profit

	2008 Quarter		**2007 Quarter**	
Operating Profit (In thousands)	**Operating Profit**	**% of Sales**	**Operating Profit**	**% of Sales**
Broadline	$ 11,230	1.2%	$11,539	1.3%
Customized	9,729	1.4%	8,378	1.4%
Corporate	(12,453)		(7,071)	
Operating profit	$ 8,506	0.5%	$12,846	0.8%

Note: The above table includes the impact of pre-tax costs associated with our Broadline facility closing of $3.3 million in our Broadline segment and the impact of the pre-tax costs associated with our pending

merger with VISTAR of $4.4 million in our Corporate segment.

Consolidated. In the 2008 quarter, operating profit decreased $4.3 million, or 33.8%, to $8.5 million, compared to $12.8 million in the 2007 quarter. Operating profit margin, defined as operating profit as a percentage of net sales, was 0.5% in the 2008 quarter, compared to 0.8% in the 2007 quarter. Consolidated operating profit in the 2008 quarter was negatively impacted by costs associated with our Broadline facility closing, costs associated with our previously discussed pending merger with VISTAR and increased stock compensation and fuel costs, partially offset by improved operating efficiencies in both segments and procurement initiatives in our Broadline segment.

Broadline. Our Broadline segment s operating profit margin was 1.2% in the 2008 quarter, compared to 1.3% in the 2007 quarter. Operating profit margin in the 2008 quarter was negatively impacted by continued inflation, primarily in the dairy, meat and poultry categories, costs associated with our facility closing and increased fuel costs, partially offset by procurement initiatives, improved operating efficiencies and a $1.0 million gain associated with a legal settlement.

Customized. Our Customized segment s operating profit margin was 1.4% in both the 2008 and 2007 quarters.

16

Other expense, net

Other expense, net, was $1.4 million in the 2008 quarter, compared to $1.5 million in the 2007 quarter. Included in other expense, net, was interest expense of $0.6 million in both the 2008 and 2007 quarters. Also included in other expense, net, was interest income of $0.6 million and $0.8 million in the 2008 and 2007 quarters, respectively. The decrease from the 2007 quarter was primarily due to a decrease in our cash balance available for investment. Other expense, net, also included losses on the sale of the undivided interest in receivables of $1.4 million and $1.8 million in the 2008 and 2007 quarters, respectively. The decrease from the 2007 quarter was due to lower interest rates on our receivables facility. The receivables facility is discussed below in Liquidity and Capital Resources.

Income tax expense

Income tax expense was $2.8 million in the 2008 quarter, compared to $4.4 million in the 2007 quarter. As a percentage of earnings before income taxes, the provision for income taxes was 39.5% in the 2008 quarter, compared to 39.2% in the 2007 quarter. The increase in the effective tax rate in the 2008 quarter compared to the 2007 quarter was primarily due to non-deductible consulting expenses.

Earnings from continuing operations

In the 2008 quarter, earnings from continuing operations decreased $2.6 million, or 37.6%, to $4.3 million, compared to $6.9 million in the 2007 quarter. Earnings as a percentage of net sales were 0.3% in the 2008 quarter and 0.4% in the 2007 quarter. The decrease is primarily due to the impact of the costs associated with our facility closure in our Broadline segment and costs associated with our pending merger with VISTAR in our Corporate segment.

Diluted net earnings per common share

Diluted net earnings per common share from continuing operations, or EPS, is computed by dividing earnings from continuing operations available to common shareholders by the weighted average number of common shares and dilutive potential common shares outstanding during the period. In the 2008 quarter, diluted EPS from continuing operations decreased $0.08 to $0.12 from $0.20 in the 2007 quarter. The decrease is primarily due to the impact of the costs associated with our facility closure in our Broadline segment and costs associated with our pending merger with VISTAR in our Corporate segment.

Magee, Mississippi Broadline Facility Closing

On January 9, 2008, our Board of Directors authorized the closure of the Magee, Mississippi broadline distribution facility. During the 2008 quarter, we recorded costs of $3.3 million associated with this planned closing. These costs included $1.2 million for severance and stay bonuses, $1.4 million for the write-down of certain assets, $0.6 million for the write-off of intangible assets and $0.1 million for other costs incurred to close the facility. We anticipate that we will incur costs of between $5.0 million and $6.0 million related to real estate valuation reserves and facility lease payments and approximately $0.5 million for remaining severance pay, stay bonuses and other costs during the 2008 second quarter. We expect that the facility will be closed during the 2008 second quarter.

Liquidity and Capital Resources

We have historically financed our operations and growth primarily with cash flows from operations, borrowings under our credit facilities, the issuance of long-term debt, the sale of undivided interests in receivables sold under the Receivables Facility, operating leases, normal trade credit terms and the sale of our common stock. We have reduced our working capital needs by financing our inventory principally with accounts payable and outstanding checks in excess of deposits. We typically fund our acquisitions, and expect to fund future acquisitions, with our existing cash, additional borrowings under our revolving credit facility and the issuance of debt.

Cash and cash equivalents totaled $95.1 million at March 29, 2008, an increase of $7.4 million from December 29, 2007. The increase was due to cash provided by operating activities of $14.0 million and cash provided by

Table of Contents

financing activities of $3.6 million, partially offset by cash used in investing activities of $10.1 million. Cash flows from discontinued operations used $0.2 million. Operating, investing and financing activities of our continuing operations are discussed below.

Operating activities of continuing operations

In the 2008 quarter, we generated cash from operating activities of $14.0 million, compared to $40.7 million in the 2007 quarter. In the 2008 quarter, net income plus depreciation, amortization and stock compensation expense, in addition to an increase in accounts payable and income taxes payable/receivable, partially offset by an increase in inventories and a decrease in accrued expenses, were the main factors contributing to the cash provided by operating activities. In the 2007 quarter, net income plus depreciation, amortization and stock compensation expense, in addition to an increase in accounts payable and income taxes and a decrease in accounts receivable, partially offset by an increase in inventories, were the main factors contributing to the cash provided by operating activities.

Investing activities of continuing operations

During the 2008 quarter, we used $10.1 million in investing activities, compared to generating $8.9 million in the 2007 quarter. Investing activities include the acquisition of businesses and additions to and disposals of property, plant and equipment. Capital expenditures were $10.1 million in the 2008 quarter and $7.0 million in the 2007 quarter. In the 2008 quarter, capital expenditures totaled $6.7 million in our Broadline segment, $1.1 million in our Customized segment, and $2.3 million in our Corporate segment. The increase in the capital spending in 2008 compared to 2007 is primarily due to our continued investment in information technology, as described below. During the 2007 quarter, we completed a substitution of collateral and sale-leaseback transaction involving one of our Broadline operating facilities and one of our former fresh-cut segment operating facilities, resulting in proceeds of approximately $15.9 million.

We continue to invest in information technology. As part of this initiative, we are implementing certain applications of an SAP software package, which we expect to be completed in 2008. We have specifically chosen the SAP financial and rebate income tracking applications, which will enable us to continue our initiative to centralize certain of our transactional accounting processes and will improve the overall efficiency of our financial reporting process. These applications will also help support our category management initiatives. We expect to make capital expenditures of approximately $10 million related to this SAP implementation throughout 2008, which is included in our anticipated capital expenditure range for 2008 of $30 to $40 million. Of the $10.1 million of capital expenditures in the 2008 quarter, $5.5 million was related to the SAP implementation.

Financing activities of continuing operations

During the 2008 quarter, we generated $3.6 million from financing activities, compared to $2.8 million in the 2007 quarter. Checks in excess of deposits increased by $2.7 million in the 2008 quarter and $2.0 million in the 2007 quarter. Checks in excess of deposits represent checks that we have written that are not yet cashed by the payee and in total exceed the current available cash balance at the respective bank. The increase in checks in excess of deposits in the 2008 quarter was related to timing of cash payments. Our associates who exercised stock options and purchased our stock under the Stock Purchase Plan provided $1.4 million of proceeds in the 2008 quarter, compared to $2.6 million of proceeds in the 2007 quarter.

Our $400 million senior revolving credit facility (the Credit Facility) expires in 2010 and bears interest at a floating rate equal to, at our election, the agent bank s prime rate or a spread over LIBOR. This rate varies based upon our leverage ratio, as defined in the credit agreement. The Credit Facility has an annual commitment fee, ranging from 0.125% to 0.225% of the average daily unused portion of the total facility, based on our leverage ratio, as defined in the credit agreement. The Credit Facility also requires the maintenance of certain financial ratios, as defined in the credit agreement, and contains customary events of default. The Credit Facility allows for the issuance of up to $100.0 million of standby letters of credit, which reduce borrowings available under the Credit Facility. At March 29, 2008, we had no borrowings outstanding, $48.4 million of letters of credit outstanding and $351.6 million available under the Credit Facility, subject to compliance with customary borrowing conditions.

Table of Contents

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

Stock Based Compensation

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

The total share-based compensation cost recognized in operating expenses in our condensed consolidated statements of earnings was $1.8 million and $1.4 million in the 2008 and 2007 quarters, respectively, which represents the expense associated with our stock options, stock appreciation rights, restricted stock and shares purchased under the Stock Purchase Plan. The income tax benefit recognized upon the exercise of stock options or vesting of restricted stock awards in excess of the tax benefit related to the compensation cost incurred was $0.1 million and $1.0 million in the 2008 and 2007 quarters, respectively. At March 29, 2008, there was $4.4 million of total unrecognized compensation cost related to outstanding stock options and stock appreciation rights and $9.5 million of total unrecognized compensation cost related to unvested shares of restricted stock, which will be recognized over the remaining vesting periods.

Off Balance Sheet Activities

At March 29, 2008, securitized accounts receivable under our Receivables Facility, which expires on June 23, 2008, totaled $243.0 million, including $130.0 million sold to the financial institution and derecognized from our condensed consolidated balance sheet. Total securitized accounts receivable include our residual interest in the accounts receivable, referred to as the Residual Interest, of $113.0 million. The Residual Interest represents our retained interest in the receivables held by PFG Receivables Corporation. We measure the Residual Interest using the estimated discounted cash flows of the underlying accounts receivable, based on estimated collections and a discount rate approximately equivalent to our incremental borrowing rate. The loss on sale of undivided interest in receivables of $1.4 million and $1.8 million in the 2008 and 2007 quarters, respectively, was included in other expense, net, in our condensed consolidated statements of earnings and represents our cost of securitizing those receivables with the financial institution. See Note 7 to our condensed consolidated financial statements for further discussion of our Receivables Facility. In addition, our 2007 Annual Report on Form 10-K contains a discussion of why our Receivables Facility is considered off balance sheet financing and describes other activities, which may be defined as off balance sheet financing.

Application of Critical Accounting Policies

We have prepared our condensed consolidated financial statements and the accompanying notes in accordance with generally accepted accounting principles applied on a consistent basis. In preparing our financial statements, management must often make estimates and assumptions that affect reported amounts of assets, liabilities, revenues, expenses and related disclosures at the date of the financial statements and during the reporting periods. Some of those judgments can be subjective and complex; consequently, actual results could differ from those estimates. We continually evaluate the accounting policies and estimates we use to prepare our financial statements. Management s estimates are generally based upon historical experience and various other assumptions that we determine to be reasonable in light of the relevant facts and circumstances. We believe that our critical accounting estimates include goodwill and other intangible assets, allowance for doubtful accounts, reserves for claims under self-insurance programs, reserves for inventories, vendor rebates and other promotional incentives and income taxes. Our 2007 Annual Report on Form 10-K describes these critical accounting policies.

Table of Contents

Our financial statements contain other items that require estimation, but are not as critical as those discussed above. These include our calculations for bonus accruals, depreciation and amortization. Changes in estimates and assumptions used in these and other items could have an effect on our consolidated financial statements.

FIN 48

As of March 29, 2008 and December 29, 2007, we had unrecognized tax benefits of $5.1 million and $4.5 million, respectively ($4.2 million and $3.6 million net of federal tax benefit, respectively), of which $2.1 million ($1.4 million net of federal tax benefit), if recognized, could affect the effective tax rate for continuing operations.

Recently Issued Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements* (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value in GAAP, and requires enhanced disclosures about fair value measurements. This pronouncement is effective for financial statements issued for fiscal years beginning after November 15, 2007; however, on February 12, 2008, the FASB issued a final staff position that delayed the effective date of SFAS No. 157 for nonfinancial assets and nonfinancial liabilities to fiscal years beginning after November 15, 2008. Accordingly, we adopted this pronouncement in 2008 and utilize the market approach to measure fair value for our financial assets and liabilities. The market approach uses prices and other relevant information generated by market transactions involving identical or comparable assets or liabilities. SFAS No. 157 includes a fair value hierarchy that is intended to increase consistency and comparability in fair value measurements and related disclosures. The fair value hierarchy is based on inputs to valuation techniques that are used to measure fair value that are either observable or unobservable. Observable inputs reflect assumptions market participants would use in pricing an asset or liability based on market data obtained from independent sources while unobservable inputs reflect a reporting entity s pricing based upon their own market assumptions. The fair value hierarchy consists of the following three levels: (1) inputs are quoted prices in active markets for identical assets or liabilities, (2) inputs are quoted prices for similar assets or liabilities in an active market, quoted prices for identical or similar assets or liabilities in markets that are not active, inputs other than quoted prices that are observable and market-corroborated inputs which are derived principally from or corroborated by observable market data and (3) inputs are derived from valuation techniques in which one or more significant inputs or value drivers are unobservable. At March 29, 2008, we had a residual interest in our accounts receivable securitization facility valued based on unobservable inputs (level 3) of $113.0 million as described further in Note 7 to our condensed consolidated financial statements. We do not anticipate that our adoption of the delayed portion of this pronouncement will have a material impact on our consolidated financial position and results of operations.

In December 2007, the FASB issued SFAS No. 141 (Revised) *Business Combinations* (SFAS No. 141R). SFAS No. 141R establishes principles and requirements for how the acquirer in a business combination recognizes, measures and reports the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in the acquiree. The pronouncement also provides guidance for recognizing and measuring the goodwill acquired in the business combination and determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. SFAS No. 141R is effective for fiscal years beginning after December 15, 2008. The adoption of this pronouncement will impact any acquisitions consummated subsequent to the effective date.

In December 2007, the FASB issued SFAS No. 160 *Noncontrolling Interests in Consolidated Financial Statements an amendment of ARB No. 51* (SFAS No. 160). SFAS No. 160 establishes accounting and reporting standards for the noncontrolling interest in a subsidiary and for the deconsolidation of a subsidiary. This pronouncement is effective for fiscal years beginning after December 15, 2008. We do not anticipate the pronouncement to have a material impact on our consolidated financial position and results of operations.

Forward Looking Statements

This Form 10-Q and the documents incorporated by reference herein contain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. Forward-looking statements, which are based on assumptions and estimates and describe our future plans, strategies and expectations, are generally identifiable by the use of the words anticipate, will, believe, estimate,

expect, intend, seek, should, could, may, would, or similar expressions. These forward-looking statements 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, all as detailed from time to time in the reports we file with the Securities and Exchange Commission.
If one or more of these risks or uncertainties materializes, 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 entirely by the cautionary statements in this section and in our other reports that we file with the Securities and Exchange Commission. We undertake no obligation to publicly update or revise any forward-looking statements to reflect future events or developments.

Item 3. Quantitative and Qualitative Disclosures About Market Risks.

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 outstanding debt. We manage this risk through a combination of fixed and floating rates on these obligations. As of March 29, 2008, our total debt of $9.0 million consisted entirely of fixed rate debt. In addition, our Receivables Facility has a floating rate based upon a 30-day commercial paper rate and our revolving credit facility, under which we currently have no outstanding borrowings, is based on LIBOR. A 100 basis-point increase in market interest rates on our Receivables Facility would result in a decrease in net earnings and cash flows of approximately $0.8 million per annum, holding other variables constant.
Significant commodity price fluctuations for certain commodities that we purchase could have a material impact on our results of operations. In an attempt to manage our commodity price risk, our Broadline segment enters into contracts to purchase pre-established quantities of products in the normal course of business. Commitments that we have entered into to purchase products in our Broadline segment as of December 29, 2007, are included in the table of contractual obligations in Management s Discussion and Analysis of Financial Condition and Results of Operations Financing Activities in our 2007 Annual Report on Form 10-K.

Item 4. Controls and Procedures.

We maintain disclosure controls and procedures, as defined in Rule 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934 (the Exchange Act), that are designed to ensure that information required to be disclosed by us in the reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission s rules and forms and that such information is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure. We carried out an evaluation, under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. Based on the evaluation of these disclosure controls and procedures, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective.
There were no changes in our internal control over financial reporting during the quarter ended March 29, 2008 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II OTHER INFORMATION

Item 1. Legal Proceedings.

In November 2003, certain of the former shareholders of PFG Empire Seafood, a wholly owned subsidiary which we acquired in 2001, brought a lawsuit against us in the Circuit Court, Eleventh Judicial Circuit in Dade County, seeking unspecified damages and alleging breach of their employment and earnout agreements. Additionally, they seek to have their non-compete agreements declared invalid. We are vigorously defending ourselves and have

Table of Contents

asserted counterclaims against the former shareholders. Management currently believes that this lawsuit will not have a material adverse effect on our financial condition or results of operations.

On January 18, 2008, January 22, 2008 and January 24, 2008, respectively, three of our shareholders filed three separate class action lawsuits against us and our individual directors in the Chancery Court for the State of Tennessee, 20th Judicial District at Nashville styled as *Crescente v. Performance Food Group Company, et al.,* Case No. 08-140-IV; *Neel v. Performance Food Group Company, et al.,* Case No. 08-151-II; and *Friends of Ariel Center for Policy Research v. Sledd, et al.* Case No. 08-224-II. The allegations in all three suits arise from our January 18, 2008, public announcement of entering into a certain merger agreement by and among VISTAR Corporation, Panda Acquisition, Inc. and us. VISTAR Corporation is a foodservice distributor controlled by affiliates of The Blackstone Group with a minority interest held by an affiliate of Wellspring Capital Management LLC. Two of the lawsuits also include The Blackstone Group and Wellspring Capital Management as named defendants, and one includes VISTAR Corporation as a named defendant. All three lawsuits were filed in the Chancery Court for the State of Tennessee, specifically in the 20th Judicial District at Nashville.

Each complaint asserts claims for breach of fiduciary duties against our directors, alleging, among other things, that the consideration to be paid to our shareholders pursuant to the merger agreement is unfair and inadequate, and not the result of a full and adequate sale process, and that our directors engaged in self-dealing . Two of the complaints also allege aiding and abetting or undue control claims against The Blackstone Group, Wellspring Capital Management LLC and VISTAR. The complaints each seek, among other relief, class certification, an injunction preventing completion of the merger and attorney s fees and expenses.

By order entered January 28, 2008, the *Neel* case was transferred to Chancery Court Part IV where the *Crescente* case is pending. An agreed order was entered by the Court on February 14, 2008, consolidating the *Crescente* and *Neel* cases and appointing counsel for those plaintiffs as co-lead counsel for the renamed consolidated matter, *In re: Performance Food Group Co. Shareholders Litigation*, Case No. 08-140-IV. On March 12, 2008, the *Friends of Ariel Center for Policy Research* case was transferred and consolidated into *In re: Performance Food Group Shareholders Litigation*.

We intend to vigorously defend ourselves and our directors against these suits. Management currently believes these lawsuits will not have a materially adverse effect on our financial condition or on our results of operations.

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

Item 1A. Risk Factors.

There have been no material changes to our risk factors as previously disclosed in Part 1, Item 1A of our Annual Report on Form 10-K for the fiscal year ended December 29, 2007.

Table of Contents

Item 2. Unregistered Sales of Equity Securities and Use of Proceeds.

Period	Total Number of Shares Repurchased	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number (or Approximate Dollar Value) of Shares That May Yet Be Purchased Under the Plans or Programs
December 29, 2007 to January 26, 2008				
January 27, 2008 to February 23, 2008				
February 24, 2008 to March 29, 2008	1,419(1)	$ 32.00		
Total	1,419	$ 32.00		

(1) On March 15, 2008, 5,000 shares of restricted stock previously awarded to certain of our associates vested. We withheld and retired 1,419 of these shares to satisfy tax withholding requirements for these associates.

Item 3. Defaults Upon Senior Securities.

Not applicable.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

None.

Item 6. Exhibits

15 Letter regarding unaudited information from KPMG LLP.

31.1 Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

Table of Contents

Signature

Pursuant to the requirements 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.

PERFORMANCE FOOD GROUP COMPANY

By: /s/ John D. Austin
John D. Austin
Senior Vice President and Chief Financial Officer

Date: May 6, 2008

Table of Contents

Exhibit Index

15 Letter regarding unaudited information from KPMG LLP.

31.1 Certification of the Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

31.2 Certification of the Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.

32.1 Certifications Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.