FINAL TRANSCRIPT

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NAFC - Q2 2007 Nash Finch Company Earnings Conference Call

Event Date/Time: Jul. 19. 2007 / 11:00AM ET

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PRESENTATION.

Operator

Good morning, ladies and gentlemen, and welcome to Nash Finch second quarter 2007 conference call. The Company has asked me to advise you that this call will include forward-looking statements which involve risks and uncertainties that could cause actual results to differ materially from those expressed in forward-looking statements. Factors that could cause such differences are described in Nash Finch press release and in the Company's filings with the SEC, including its most recently filed form 10-Q, as well as the form 10-K for fiscal 2006. The Company also notes that the call may include references to certain non-GAAP financial measures as the term is used in the SEC regulation G, such as consolidated EBITDA. Reconciliations of non-GAAP financial measures to the most comparable GAAP financial measures are provided on the Investor Relation portion of the Company's website under the captions presentations and supplemental financial information, and in the schedules to the Company's earnings release, which can also be found on the same portion of the Company's website under the caption press releases.

It is now my pleasure to turn the conference over to the Company's Chief Executive Officer, Mr. Alec Covington. Please go ahead, sir.

Alec Covington - *Nash Finch Company - President, CEO*

Thank you Roke, and good morning, everyone. Joining me today are Bob Dimond, the Company's Chief Financial Officer and Kathy Mahoney, the Company's general counsel. As we have done in the past, first Bob will review the financial results for the second quarter. I will come back and give a little bit of flavor and overview of the quarter from at least my view, and then lastly, we will end up with assistance of Roke by taking some questions from the group as the case may be. So at this time I would like to turn the meeting over to Bob Dimond.

Bob Dimond - *Nash Finch Company - EVP, CFO, Treasurer*

Thank you, Alec, and good morning, everyone. Our total sales in the second quarter 2007 were $1.064 billion, down $7 million or 0.6% from the prior year sales of $1.071 billion. Year-to-date sales were $2.096 billion, down $9 million or 0.4% from the prior year sales of $2.106 billion. Similar to the first quarter, strong sales in our military segment largely offset the sales declines in our retail segment which was caused primarily by stores closed last year and customer attrition in our food distribution segment.

The following is a breakdown of sales by our three business segments for the quarter. Sales in our food distribution segment were $633 million this year, down 1% from $639.5 million last year. Our retail segment sales were $140.5 million in the second quarter 2007, down 7.9% as compared to $152.6 million last year, reflecting last year's store closures. Retail same-store sales were positive at 0.3% in the second quarter 2007, an increase from -0.3% in the first quarter.

As mentioned previously, the strong sales momentum in our military segment continued in the second quarter, both domestically and overseas. Military sales were $290.5 million in this year's second quarter, up 4.2% versus $278.7 million in last year. Our gross margin was 9% of sales for the second quarter 2007 and 8.9% of sales year-to-date compared to 9% of sales for both comparable periods last year. Please note that our overall gross margin was negatively affected by approximately 0.2% of sales in the 2007 periods due to a sales mix shift between our business segments. This is due to a higher percentage of 2007 sales occurring in the military segment and a lower percentage in the retail and food distribution segments, which have a higher gross profit margin. Offsetting this shift was an improvement in margins primarily due to better management of our inventories.

Our selling, general and administrative expenses as a percent of sales for the second quarter 2007 and year-to-date periods were 6.2% and 6.3% of sales, respectively, compared to 6.8% for both comparable periods last year. As you will remember, SG&A expenses for the 2006 periods included a second quarter charge of $5.5 million or 0.5% of sales resulting from the bankruptcy of a longtime customer following the actions taken by another creditor.

Net earnings for the second quarter 2007 were $9.6 million or $0.70 per diluted share. This compares to $4.1 million or $0.31 per diluted share last year. I would like to remind you that we provided a supplementary schedule at the end of our earnings release, which details our quarterly EBITDA results in terms of consolidated EBITDA as defined in our bank credit facility. You will recall that one of the key financial targets identified by our new strategic plan is to drive improvements in our EBITDA margin. With this in mind, EBITDA for the second quarter 2007 increased to $33.3 million or 3.1% of sales compared to $27.3 million or 2.6% of sales last year.

EBITDA for the year-to-date period in 2007 was $58.5 million or 2.8% of sales compared to $51.3 million or 2.4% of sales in the year-to-date 2006 period. We are pleased with the year-over-year increases in EBITDA realized during the quarter and year-to-date periods, which benefited from improvements in both gross margin and SG&A's expenses. The following is a breakdown of EBITDA by business segment for the second quarter.

Our food distribution segment EBITDA was $23.7 million or 3.7% of sales in the second quarter, an increase compared to $20.1 million or 3.1% of sales in the second quarter last year. In our retail segment, EBITDA for the second quarter of 2007 was $8.9 million or 6.3% of sales compared to $9 million or 5.9% of sales in the second quarter 2006. And finally, EBITDA in our military segment was $10.6 million or 3.6% of sales in the second quarter this year versus $10.3 million or 3.7% of sales last year.

As noted in the earnings release, pretax income for the second quarter of 2007 and year-to-date periods included several significant items that sum to a net credit of $0.9 million and $1.0 million dollars, respectively. As a subset of this, EBITDA included a credit due to the gain on sale of an intangible asset totaling $0.7 million for both the quarter and year-to-date 2007 periods. And I would ask you to refer to the table that details these items located on the second page of the earnings release.

The major pretax items affecting 2007 periods included a special charge reversal for a location subsequently sublet. and the gain on sale of an intangible asset, partially offset by charges for additional lease reserves and impairments. As shown in the table, pretax income for the second quarter 2006 and year-to-date periods also included several significant charges totaling $5.4 million and $6.4 million, respectively. And EBITDA included charges in 2006 to the tune of $1.1 million for the second quarter and $0.8 million for the year-to-date period.

Now turning to the balance sheet, you will see that we paid down approximately $10.8 million of revolving and long-term debt during the second quarter. We had a total of $134.7 million of debt outstanding on our senior debt facility and had $95.8 million of availability under that facility at the end of the quarter. Our leverage ratio of total debt to EBITDA improved to 2.95 times at the end of the second quarter, and the company was in compliance with all financial covenants at the end of the quarter.

The Company announced on Tuesday that our Board of Directors had declared a regular cash dividend of $0.18 per share to be paid on September 7, 2007. And you might note that this is our 324th consecutive quarterly dividend paid.

Finally, let me comment regarding progress towards our long-term key financial targets identified in our strategic plan. As mentioned earlier, one of our key financial targets is to achieve an improvement in our total company EBITDA margin to 4% of sales. Just as important, we have also targeted to achieve free cash flow returns on net assets of 10%, 2% sales growth rate and to delever our balance sheet to a debt to EBITDA ratio of 2.5 times.

During the second quarter of 2007 we realized improvements in the following three metrics, EBITDA improved to 3.1% of sales in the second quarter of 2007, up from 2.6% in the prior year quarter. Our total Company sales growth rate improved to -0.6% for the second quarter this year compared to being down by an average of -2.1% during the final three quarters in 2006, and our leverage ratio of debt to EBITDA improved to 2.95 during the quarter, down from 3.42 at year end. Our rolling four quarter free cash flow to net assets ratio decreased from the year-end rate of 8.7% to 5.8 times in the second quarter 2007. And we expect to make improvements on this metric as we implement our strategic plan.

As we progress towards delivering on these long-term financial targets, we believe this should translate into driving significant shareholder value. I will now turn the call back to Alec.

Alec Covington - *Nash Finch Company - President, CEO*

Thank you, Bob. And I guess from my perspective I would say that the overall results was really within the range of what we had expected. Now when we look at EBITDA as an example and we look at the press release and we look at the numbers, the raw EBITDA comes in as an improvement of about 22%. However, the way we do the analysis internally is we take the noise out of the current year numbers and the prior year numbers and really the operating EBITDA improved 15% because there were some onetime items in both years.

On a pretax basis, you see a similar trend. If you look at the pretax earnings, it would lead you to believe that the pretax had more than doubled. And technically, it did. However, when you really set aside all of the onetime items from last year and the write-down of the customer debt and receivable, you really see an improvement of about 25% on a pretax basis in net income and about 22% on an after-tax basis in net income. So that is really the way we look at the numbers from an internal operating perspective. As Bob mentioned and as I've mentioned many times, we really focus more heavily than anything else on the performance of EBITDA, which was a 22% or really a 15% improvement after you factor out the onetime items in both years.

I would say that sales in total was very close to our internal plans with particular strength visible in military and retail. I was particularly pleased with the positive retail comps that came in in retail of 0.3. That has been a long time since we've had positive retail comps, and that progression has been going on now for about a year. So we are very pleased, and that group did a fabulous job in the second quarter.

EBITDA was slightly better than we had expected, partially aided by the sale of the intangible assets that Bob mentioned earlier. I am pleased that other than that there were no notable onetime charges impacting EBITDA this year. And I am also pleased, as I mentioned last quarter, that we are continuing to see visible signs of improvement in all of our business units. And that is very important because we want to continue to see progress, not just one or the other, but in all three. And I am very pleased with that fact coming about again for the second quarter, as was the case in the first.

I am also pleased that we continue to delever the Company with $10.8 million being paid during the quarter. We still have some work to do there, to get to where we want to be by the end of the year. But I think it is pretty clear and visible that as Bob and I had mentioned back sometime ago, we anticipate that we will reach our 2.5 goal by the end of this year.

However, having said all of that I want to point out that there is still a great deal of heavy lifting that needs to be done and that we have to do here at Nash Finch. So while we are pleased with the results, there is still a lot of work that is going on here, and will continue to be a lot of work that goes on during the remainder of this year and 2008 as we not only continue the process of fixing the business in its current state, but also implementing the strategic plan that leads us to better growth opportunities for the future.

Now as we look at the individual segments I guess first of all in food distribution, sales decreased as Bob mentioned, about 1% from prior year; that is really consistent with the first quarter, but it is much improved from the fourth quarter because in the fourth quarter it was -2.7%. So again, we want to continue to see it track along the lines that it is, but from a reality perspective with the loss of Martin's we know that is going to get worse before it gets better.

EBITDA, however, showed significant improvement, almost 18% improvement in that particular segment of our business. So we are extremely pleased by that. It was driven by really two things, one of course as Bob mentioned, the improvement in gross margin. That, again as I mentioned in the first quarter is all about the improvement the team has made in inventory management practices, putting the disciplines back in the business as I mentioned before. Improvements in the way that we manage our vendor relationships and at the same time, always being mindful that our job here is to make sure that we are continuing to focus on lowering the cost of goods to our customers. So we continually monitor the depth of promotions, the number of promotions available to our customers. And we continue to see improvements made in that area. So I like to see all of those metrics moving at the same pace at the same time. So the group has done a marvelous job in that regard.

However, on the second quarter we began to see increased traction in the reduction of expenses. Our expense control in the food distribution business was better than the first quarter, and certainly better than prior year. So they are really doing a fabulous job there and those initiatives are really gaining some traction. Our inventory, however, is up from prior year; you'll notice that as you compare the balance sheet and also as you look at the cash flows on a comparable basis for the first half of the year. There are specific reasons for that.

First of all, in the last year we actually saw a reduction in inventory during the first half of over $20 million. That was principally the result of consolidating a distribution center after we acquired Roundy's in 2005. So that is an aberration in last year's numbers where we reduced the inventory by over $20 million. This year we went the other way and increased the inventory from last year by $19 million or so. The first point I would make about that is that at this time last year our inventory levels were really lower than they should have been. And as a result of that, while our service levels really where never bad last year, they weren't as good as they needed to be.

So we consciously made a decision to make sure that we focused the organization on delivering significant improvements in fill rate and performance to our customers. That is the first. The second is that one of the disciplines that fell apart by the Company before we made a lot of changes in management was really the proper amount of investments made in inventory or forward buy purposes. And that has been resolved and fixed and the team is doing a great job there.

The third is, again, coming back to our customers, it is our responsibility to deliver the lowest cost of goods possible to our customers. So we are doing a better job today of actually bridging deals so that we can keep allowances on for a more extended period of time by proper buying practices; so all of those things combined has resulted in a temporary tick-up in inventory. But again, by the end of the year we will see those things flush out, and it is my belief that by the end of the year we will still be able to come in where we had expected to come in with our free cash flow measurement. But right now our inventory is not helping us in that regard, and we have to focus on that.

But there has been specific reasons for it, and it was not by accident. It was by intention. I think the management team in food distribution continues to be clearly focused on the right things. I do feel that I need to give you an update on the Martin's business transition. As you remember, we announced during at the end of the first quarter that our customer, Martin's would be transferring their business to another supplier. As we sit here today, that job is essentially all but done. During the second quarter there was very little impact in sales. Actually when you look at the second quarter sales numbers there was only about a $600,000 impact in sales. It was really inconsequential in the second quarter.

In terms of transition costs in the second quarter, very little of that as well. We had about $185,000 in transition and severance costs in the second quarter, but not a lot of impact. The priorities for the third quarter as it relates to this transition is workforce realignment which is underway now, inventory reduction, which is also underway in the third quarter and equipment redeployment, which is also underway. We will be redeploying the rolling stock and the material handling equipment out to our other facilities as we don't need that level of equipment today in our Westville facility to manage the remaining volume.

Now I want to again as a Company we do not give guidance, but I think as it relates to significant items it is proper and appropriate to make sure that you are prepared for what types of impacts that these type of events are likely to bring. So as we look at the third quarter as it relates specifically to Martin's, we anticipate a sales reduction of about $45.3 million from our expectations for the third quarter. I also anticipate an EBITDA reduction of about $1.4 million. That includes in it some transition costs for the items that I mentioned, the workforce realignment, the inventory reduction and the equipment redeployment.

In the fourth quarter I anticipate that the Martin's business will affect us in terms of sales by about $38.7 million, and I expect the fourth quarter EBITDA to be impacted by about $1 million again including the transition costs. Now in our previous call we had given an annual EBITDA estimates of what we thought the business would hinder our efforts. We still believe that is proper. We did not have a lot of time to examine those numbers before the call last time. Of course we've had a lot more time to reforecast and examine those numbers since that time, and we are very comfortable that the range that we gave will actually be on an annualized basis in that $3 to $3.5 million range. So I'm very comfortable with the estimate that we gave and we stand firm on that. And it is more clear to us today than it was then.

Now again, our Westville facility, which is the facility that was servicing the Martin's business, continues to be one that is very strategic to our future. It is an excellent location, its an excellent facility, and it has an excellent and extremely productive workforce, which by the way has just done a marvelous job in managing the transition to the other supplier by making sure that our loads were on time and our service levels were good. So we've monitored that very carefully as well.

Now in our food distribution group for the third quarter we have several agenda items, of course, but there is going to be particular focus on the following areas. I think first of all we have been and continue to be very focused on business development topline growth is a primary initiative for us in food distribution. Of course the growth that we expect to see in food distribution we've always said would become easier, post the implementation of our center store program and a lot of the components of Operation Fresh Start. But for right now we continue to focus heavily on business development and growing that topline, and I think you can see with the 1% decline in the first and second quarters as compared to the fourth quarter that absent the effect of Martin's that things have been going relatively well in that regard. Again it gets a lot easier post the implementation of our strategic plan.

The second thing that we will be focused on is the impact that will benefit us from some of the events that are happening in Detroit, Michigan. As I know that all of you are aware, A&P is exiting Detroit through their Farmer Jack operation. They sold a number of stores to different folks. We at this point are aware that we will be supplying one store on a primary basis, three others on a secondary basis in the market with a current customer relationship that we have. But there are several others that are out there that have yet to be resolved. So there will continue to be a lot of activity and work centered around the Farmer Jack stores in the third quarter, much as we've seen in the second quarter.

The other focus for us will be incremental improvements in inventory and vendor management, but the kinds of improvement that we've made thus far in the gross margin line through improved inventory management and vendor relationship management, we can't continue to keep those kind of jumps in the improvements going incrementally quarter by quarter. Year-over-year the improvement will continue to look quite good. But I don't expect to continue to see these jumps quarter-over-quarter in gross margin improvement in the food distribution segment because again, a lot of the low-hanging fruit and the things that we needed to do to improve the disciplines have now been done.

Where I do expect to see continued momentum is in the operating cost side because while the improvement in the restoration of our gross margin area came early, the improvements and momentum in containing and reducing our costs and improving our productivity and efficiency has come slower. In fact, the second quarter was really the first time that I could visibly see improvements occurring in overall productivity, transportation and freight management and overall operating efficiencies. And I expect it is my expectation that we will continue that trend in the third and fourth quarters.

Now turning to our corporate retail segment, I am very pleased that the same-store sales were positive 0.3% after being -0.3 in the first quarter. And of course negative all the way through 2006. Inside of that achievement this organization battled two Wal-Mart super centers that opened, as well as four locations where we've had incredible road construction right out in front of our store locations. In some cases where customers had difficulty even making a left turn into our parking lots in some of our locations.

EBITDA was essentially flat, of course because we don't have as many stores, but the EBITDA rate improved nicely from 5.9 to 6.3. And primarily this group is focused on improvements in efficiency and merchandising in the dollars that they are spending. They are doing a good job of making the right decisions in the merchandising spend. So it is helping to drive sales, but also to improve margins. So I'm very, very pleased with their performance.

The labor has increased. You will see that in the segment numbers; if we were to strip through the numbers you would see that labor is increased but that has been a conscious decision that we have made in order to better serve our customers, and I think that is paying off for us. So I think the management team in this particular segment is certainly making good decisions. However, as we enter the third quarter this group will have to focus on and will have to focus on as a Company, making sure that we minimize the sales losses from new competition that we know is coming in the third quarter.

We will be impacted by two additional Wal-Mart super centers, a couple of other independents that are opening in a couple of other towns. We will continue to be impacted from road construction. So we anticipate that our third quarter same-store sales comps will go negative again by 2% or higher during that period for those reasons. In addition, we will continue to focus on our alternative format units, which are performing very well. We've got a lot of -- we have a lot of encouraging signs in our Avanza units, and a lot of work is being done there. So we are very excited about the prospect of those opportunities, and that will continue to be a focus for us in the third and fourth quarters.

Now turning to our military segment for a moment, as Bob mentioned sales increased over 4% due to new customer additions. I think it is also fair to note that the military segment group performed in this fashion in spite of a rather dramatic change in the annual promotional activity of one of our large vendor customers. Now we anticipate that those promotions will probably fall more toward the third quarter than the second quarter, but the point is in order to achieve a 4% improvement they had to overcome the loss of that promotional activity which benefited them in the same quarter last years. So I am extremely pleased with what this team is doing.

The other thing is they were able to achieve an EBITDA level that was flat in spite of the fact that we sold a piece of real estate last year to the tune of $1.1 million. So when you look at the EBITDA and you see that it is flat, it really isn't because embedded in last year's numbers was the gain on this piece of property that we sold.

The export business exceeded our expectations, which we are very pleased by because again, that is a business that is very important to us and very profitable. We are also beginning to see traction with expense reduction initiatives in our military business, so we are very pleased with that. The overall this management team is doing an excellent job; in the third quarter we will continue to focus on the pushing for organic growth. They are doing a great job with that but that will continue to be a focus for us here. And a continued emphasis on operating cost reductions. It continues to be a very important initiative for us within our military segment.

Along the lines of our strategic initiative, which we call Operation Fresh Start, all initiatives continue to make a great deal of progress. I am not going to spend a great deal of time talking about it except to say that our year two strategic planning session is already underway. We are now believe it or not fixing to enter into yet the second phase of planning for Operation Fresh Start. It is hard for me to believe that time has gone by that fast. What that means is that the management team currently is working very hard on making sure that we have all the initiatives necessary for the second year of Operation Fresh Start.

We will meet in August with our management team to make sure we have thorough planning centered around all of the components of Operation Fresh Start. We will then convene with the Board in September for a strategic planning session with them. And then we will come back and communicate both to employees and all of our constituencies our specific plans as we move into thinking about year two of the phases of Operation Fresh Start.

In summary, I would say that we are very pleased with the second quarter results. I am pleased that we see signs of improvement visible in all business segments. Operation Fresh Start continues to move carefully forward. We continue to be dedicated toward being the premier partner to independent retailers and regional chains. I think that is becoming more and more visible in the marketplace and is resonating more clearly in the marketplace with our customers, as well as potential customers. We remain very committed to our long-term goals, and those goals again, are to generate a business plan that will allow us to achieve a 2% organic growth, 4% EBITDA to revenue, 10% return on free cash flow and EBITDA leverage of 2.5 times.

There remains a great deal of heavy lifting required during 2007 and beyond in order to achieve all of these objectives. I also feel compelled to remind you that this is -- we're going into our long quarter. A year ago when I was, I guess two-thirds of the way through the third quarter, I began to hear a little bit of chatter that Nash Finch is late in its earnings and this and that and the reality is that it is a long quarter for us. So our next earnings release I will remind you and call will be in November, and as we did last year, that meeting and call will take place in New York. And Bob will be planning that.

It will be followed by several days of individual meetings that we will try to get scheduled with our large investors and those that would be interested in meeting with us. Those notices will be forthcoming and plans will be forthcoming by Bob Dimond. And those with whom he works with. But I felt compelled to make sure you were aware of the timing and also the fact that we will once again, as we did last year, come to New York and talk to people individually and openly and publicly, not just about the third quarter earnings, but also about an update on the overall initiatives that comprise Operation Fresh Start and what we think will be the next phase of those initiatives.

Now Roke if we could ask your assistance, I would love to spend some time talking with those on the call and seeing if we might be able to answer questions or listen to comments from the group.

QUESTIONS AND ANSWERS

Operator

(OPERATOR INSTRUCTIONS) Karen Howland, Lehman Brothers.

Karen Howland - *Lehman Brothers - Analyst*

Good morning. Congratulations on a sequential improvement in the numbers. They are pretty strong.

Alec Covington - *Nash Finch Company - President, CEO*

Thank you.

Karen Howland - *Lehman Brothers - Analyst*

Quick question about the retail business. Very impressive that you all reported a positive comp as far back as my model goes. I don't think Nash has ever shown that, so that is obviously a pretty significant milestone. I was wondering if you had any insight into traffic versus ticket on that and also if you knew how much inflation was impacting that comp number.

Alec Covington - *Nash Finch Company - President, CEO*

I don't that -- unless Bob can help me -- I don't know that we have specific data we can relate today regarding the inflationary impact on those dollars, but I can tell you from what we view weekly that the overall gains is really coming as much as anything from an improvement in sales per customer. I would say that weights more than the increasing customer count, even though we are seeing some improvement in customer count in some locations, the predominance of that improvement is coming from increased sales per customer, Karen.

Karen Howland - *Lehman Brothers - Analyst*

And can you remind me with inflation, in the distribution business, can you pass that through directly to your customers via price increases?

Alec Covington - *Nash Finch Company - President, CEO*

The way our distribution business works is we sell the product based upon what the manufacturer considers the list, and we work off of what were the insights we were given from the manufacturer. So we don't really have a great deal of control over the cost of the product, and of course our customers recognize that. So the inflation and product cost is just inherent in what they pay for the product.

Karen Howland - *Lehman Brothers - Analyst*

Perfect. Thanks. And then I was noticing that the CapEx for the first half of the year was very low compared to I guess your expectation of, I think it is 25 to $30 million for the year?

Alec Covington - *Nash Finch Company - President, CEO*

Right. I would say first of all I saw that same trend a little bit last year because for whatever reason, we start late on projects and then we see a heavier weighting of the overall annual spend in the second half than the first half. Having said that, we went into 2007 very cautious on CapEx because we wanted to be sure that we were mindful of our commitments to properly manage our free cash flow returns. So even though we put together a CapEx budget, we were very slow in releasing those projects during the year to ensure that we were seeing the proper results in our cash flow that we anticipated. So part of that is systematic to us. Part of it is the way that we manage the flow of the CapEx during the year, Karen.

I think by the end of the year you can't take the half-year number and double it because it will get larger in the second half. But I think that because we started so late, it might be a little difficult for us to spend the total amount by the time we get to the end of the year.

Karen Howland - *Lehman Brothers - Analyst*

Am I right, though, that the guidance right now is 25 to 30?

Alec Covington - *Nash Finch Company - President, CEO*

Yes, absolutely.

Karen Howland - *Lehman Brothers - Analyst*

Okay, great. And looking at the corporate expense, the corporate expense line or the corporate EBITDA I noticed that there is a considerable decline year-over-year, as well as a sequential decline from the first quarter. I was wondering if that was just general expense control, if there are any particular items that were impacting that.

Alec Covington - *Nash Finch Company - President, CEO*

Yes, there is fundamentally there is some changes in the way that when some of our contractual agreements that expired from some agreements that we had when we bought the MDV business. So that is part of it. The other part of it is we are just seeing an overall decline in expenditures throughout the various corporate functions, IT alone I think is probably going to be off about $2 million year-to-date or for the year. Legal, finance, almost all throughout that P&L. That is something that we really put a lot of focus on, Karen, in managing the business because like everything else, this corporate overhead has to go down, as well. And so we put a lot of emphasis on those areas.

Karen Howland - *Lehman Brothers - Analyst*

So you think the I guess $10 million for a normal 12-week quarter is more of a normalized run rate compared to the 12 that it has been running at?

Alec Covington - *Nash Finch Company - President, CEO*

That is a reasonable expectation. It will -- you will see because you can't always properly forecast how a lot of the legal expenses flow throughout the year, as well as even some of the claims and things that comes through. But I would say that is a reasonable expectation.

Karen Howland - *Lehman Brothers - Analyst*

Not to worry, I won't get too upset if it fluctuates slightly there. And then finally, two or three housekeeping questions. The tax rate looked a little bit higher this quarter. What would you be expecting for the rest of this year?

Bob Dimond - *Nash Finch Company - EVP, CFO, Treasurer*

The effective rate we are expecting is about 44 to 44.5%, which is similar to what we've booked here to date.

Karen Howland - *Lehman Brothers - Analyst*

Okay. And then the gain on the sale of the intangible assets, is that included in the -- is that impacted the EBITDA, is that included in corporate?

Bob Dimond - *Nash Finch Company - EVP, CFO, Treasurer*

It is actually spread about $0.5 million of that is in the retail segments, and the other is in corporate.

Karen Howland - *Lehman Brothers - Analyst*

Great. I'll let someone else ask some questions. Thanks so much.

Operator

(OPERATOR INSTRUCTIONS) Eric Larson, Piper Jaffray.

Eric Larson - *Piper Jaffray - Analyst*

Good morning, everyone. Nice quarter. Congratulations. Just to make sure that my numbers are correct, I've just gone back and calculated your trailing 12 EBITDA, and I think I am just a little bit over $125 million in trailing 12. And I think that excludes kind of all of the sort of onetime items. And if I'm wrong on that, please let me know.

One of the things that we had talked about before was that you had planned on kind of getting back to about $135 million annual run rate toward the end of this year. Is that still something, Alec, that you guys are shooting for? It seems more realistic now than maybe when you started your first quarter this year. You've had two good quarters. So it seems like that is more an achievable goal.

Alec Covington - *Nash Finch Company - President, CEO*

You echo some of the things that Bob and I had to defend at the most recent Board meeting because they were raising their sights on it, as well. But I would say that in 2005 we ended at about 131.5, and our initial goal in the journey was to restore at least back to the level that we had lost in 2006 to 2005. And I think that as you look at the numbers and to your point, I did mention that I would if it really -- if things were really working well I would hope to look up at the end of the year and see that our annual run rate is approximating where we were in 2005. And it appears that that seems to be the trajectory that we are on.

Now regarding the question on the trailing 12, I'm going to defer to Bob because that number seems a little bit high. But I'm not sure.

Bob Dimond - *Nash Finch Company - EVP, CFO, Treasurer*

Eric, you've probably seen the last page of our press release where we count the actual rolling four quarters, which is shown as $109.9 million. But I believe what you are doing is you are going back to our significant charge detail that we provided at the end of the year, which showed there was about an $11 million difference of onetime charges last year, the most significant being in the third quarter where we had some costs for the severance of the senior team, the old senior team leaving (multiple speakers).

Eric Larson - *Piper Jaffray - Analyst*

Right, yes.

Bob Dimond - *Nash Finch Company - EVP, CFO, Treasurer*

So I think you are directionally right, although I do not have --.

Eric Larson - *Piper Jaffray - Analyst*

I might be one million or two high, but it is in that general ballpark. But I guess sort of the key point that I wanted to -- it seems, and Alec seems like you guys have that momentum and that getting back to a possible 2005 EBITDA level run rate toward the end of this year, which was truly a stretch goal I think and I think you guys are seem to be getting closer to knocking that down. That is just my impression by looking at your numbers.

Bob Dimond - *Nash Finch Company - EVP, CFO, Treasurer*

Right.

Eric Larson - *Piper Jaffray - Analyst*

Next question. It is back on the retail side. You've closed seven stores over the last 12 months, I believe if that -- maybe that all occurred in 2006. But again, maybe it is a rolling -- maybe it is a trailing 12 with seven stores. Are you comfortable right now with the stores that you have open? Obviously you say you have some Wal-Mart impacts coming here. Are those good stores? Are they marginal stores where you could push those into maybe a negative cash or a negative earnings situation? How is your current store base the way you look at it today?

Alec Covington - *Nash Finch Company - President, CEO*

I think as we look out there I think that the impacts of the Wal-Mart openings is unfortunately -- fortunately or unfortunately according to how you view it -- is coming against stores that today are extremely profitable and there is no way to not slice the pie because in one case we are the only store in town. So we're going to get hit. Now when we get hit we are still going to have a profitable store but it is just not going to be the very profitable store that it was before.

Now so I don't really, as we look at the business today it is possible always that we will look at that and review it carefully because, Bob and I actually not just quarterly, at the end of each month, we sit down and review each one of those stores relative to their EBITDA performance and their [sunk] cost to make sure that we are not wasting money. We are always doing that review. Where we sit right now is we are in good shape. Having said that, at the end of -- past the end of the quarter we did have an opportunity to close a store as a result of a transaction that benefited the Company through some sales of some intangible assets.

So those kinds of things could crop up, but the answer to your basic question is where we sit today is we don't see any big looming danger of closing a bunch of stores, but we monitor it every single month.

Eric Larson - *Piper Jaffray - Analyst*

Okay, good. And just a final question, it looks like you are making progress on starting to recover some of your lost vendor allowances. It is showing in your gross margin and those sorts of things. Where does your team sit on -- I know that is a long battle, and it takes time to kind of get that back on track -- where would you say you sit on recovering vendor allowances? Are you in the third, fifth, eighth or ninth inning?

Alec Covington - *Nash Finch Company - President, CEO*

I think we are getting pretty close to fully maximizing that side of our business, Eric. I think it was, to your point you are right on the money that when that thing gets out of whack it is a long journey toward getting it back on track. But the team has been focused. We've had lots of vendor meetings. There is some very strong management disciplines in place there. And I don't really see that there is a tremendous amount more that can be done there because I just think they are doing a very good job where they are at right now.

Eric Larson - *Piper Jaffray - Analyst*

Okay, great. Thanks, guys.

Operator

(OPERATOR INSTRUCTIONS) There are no further questions at this time; I will turn it back over to our speakers for any additional or closing comments.

Alec Covington - *Nash Finch Company - President, CEO*

All right, thanks to everyone. Again we are pleased with the quarter, but we have a lot of work yet to be done, and we look forward to talking to you in New York in November. Thanks.

Operator

Thank you, ladies and gentlemen. That does conclude today's conference call. We thank you for your participation, have a great day.

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