FINAL TRANSCRIPT

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PRESENTATION

Operator

Good morning, ladies and gentlemen, and welcome to the Nash Finch third quarter 2010 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 the forward-looking statements. Factors that could cause such differences are described in the Nash Finch press release and in the Company's filings with the SEC, including its Form 10-K for fiscal 2009.

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 Relations portion of the Company's website, under the caption Presentations and Supplemental Financial Information, and in the schedule to the Company's earning release, which can also be found in that same portion to 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.

Alec Covington - *Nash Finch Company - CEO*

Thank you, Sara, and good morning, everyone.

Joining me this morning is Kathy Mahoney, our Executive Vice President and Corporate Counsel for the Company, Bob Dimond, our Executive Vice President and Chief Financial Officer, Christopher Brown, President and Chief Operating Officer of our Wholesale business, and Ed Brunot, President and Chief Operating Officer of MDV, our military business.

As we have done in the past, I am going to turn the call immediately here over to Bob Dimond for a few comments on the financials, and then I will be back in just a few moments to add a little bit more flavor to the quarter.

Bob?

Bob Dimond - *Nash Finch Company - CFO*

Thank you, Alec, and good morning, everyone.

Our total sales for the 16-week third quarter 2010 were $1.51 billion, compared to prior year sales of $1.63 billion, a decline of 7.5%. However, after adjusting to exclude the sales impact of approximately $44.6 million during the quarter associated with the previously announced transition of a portion of the food distribution buying group to another supplier, comparable sales for the quarter decreased 4.9% as compared to last year. Our total sales for the first 40 weeks of 2010 were down 3.6%, to $3.85 billion as compared to prior year sales of $3.99 billion. Our year-to-date sales include $59.4 million of noncomparable sales associated with the three new military distribution centers we acquired on January 31, 2009. Excluding the additional sales associated with the acquisition, and after adjusting for the sales impact of $60.8 million attributable to the transition of a portion of the food distribution buying group, year-to-date comparable sales decreased 3.7%, as compared to last year.

Consolidated EBITDA for the third quarter of 2010 was $43.8 million, or 2.9% of sales, as compared to $46 million, or 2.8% of sales, for the third quarter of 2009. Consolidated EBITDA and net earnings for the quarter and year-to-date periods were affected by several significant items which were presented in the table on page two of the earnings release. The third quarter 2010 EBITDA was negatively affected by significant items totaling $1.5 million, primarily resulting from startup and conversion costs associated with recently acquired military distribution centers, as well as shutdown costs with the facility in the food distribution segment. EBITDA for the third quarter of 2009 was negatively affected by $0.9 million, due to conversion costs associated with the military acquisition last year. After excluding these items, EBITDA for the third quarter 2010 would have been $45.3 million, or 3% of sales, as compared to $46.9 million, or 2.9% of sales, in 2009.

Consolidated EBITDA for year-to-date 2010 was $104.2 million, or 2.7% of sales, as compared to $108.9 million, or 2.7% of sales, in 2009. The year-to-date 2010 EBITDA was negatively affected by significant items totaling $3.3 million, resulting from startup and conversion costs associated with the acquired military distribution centers, as well as shutdown costs associated with a wholesale distribution center. In 2009, year-to-date EBITDA was negatively affected by $3.5 million resulting primarily from startup and conversion costs associated with the military acquired -- acquisition. After excluding these items, EBITDA for year-to-date 2010 would have been $107.5 million, or 2.8% of sales, compared to $112.4 million, or 2.8% of sales, in 2009.

Net earnings for the third quarter 2010 were $15.3 million, or $1.18 per diluted share, compared to net earnings of $21.9 million, or $1.64 per diluted share, in 2009. Net earnings for the first 40 weeks of 2010 were $34 million, or $2.57 per diluted share, compared to net earnings of $45.9 million, or $3.44 per diluted share, in 2009. Significant items had a positive impact on net earnings of $1.2 million, or $0.10 per diluted share, in the third quarter 2010, primarily due to a $2.2 million reversal of previously recorded tax reserves, offset by $1.1 million of startup costs. The third quarter 2009 included significant items that benefited and net earnings for $6.3 million, or $0.47 per diluted share, primarily resulting from a $7.6 million gain on a litigation settlement. After adjusting for these items, net earnings for the third quarter 2010 would have been $14.1 million, or $1.08 per diluted share, as compared to $15.6 million, or $1.17 per diluted share, in 2009.

Significant items also had a positive impact on the year-to-date 2010 net earnings of $0.1 million, or $0.01 per diluted share, as compared to $1.8 million, or $0.88 per diluted share, in 2009. The year-to-date 2009 results benefited from $6.7 million in gains realized from on the acquisition of the three distribution centers, and a gain on litigation settlement of $7.6 million. After adjusting for these items, net earnings for year-to-date 2010 would have been $33.9 million, or $2.56 per diluted share, which is flat compared to $34.1 million, or $2.56 per diluted share, in 2009.

Our third quarter 2010 gross margin was 8.1% of sales, compared to 7.9% of sales during the same period last year. Our gross margin improved across all of our business segments. Our year-to-date 2010 gross margin was 8% of sales, compared to a 8.1% of sales during the same period last year.

Consolidated SG&A for the third quarter 2010 was 5.4% of sales, as compared to 5.2% of sales during the third quarter 20009. Our SG&A was negatively impacted by year-over-year increases in self-insurance claims of $1.4 million and non-stock cash compensation of $1 million or, in total, 0.2% of sales. Consolidated SG&A for year-to-date 2010 was 5.4% of sales, as compared to 5.6% of sales during the year-to-date 2009.

Improvements on our key financial targets have been achieved, since the targets were announced as part of the Company's strategic plan in November, 2006. In particular, consolidated EBITDA margin improved from 2.2% to 2.7% of sales, and the debt leverage ratio has improved from 3.11 times to 2.38 times for fiscal 2006 to the third quarter of 2010. The ratio of free cash flow to net assets, exclusive of strategic projects, has increased from 8.7% in fiscal 2006 to 11.6% as of the third quarter 2010.

Finally, the organic revenue growth metric has been negatively impacted by the downturn in the economy. Total debt at the end of the third quarter of 2010 was $321.9 million, which was a reduction of $11.5 million, as compared to $333.4 million at the end of the third quarter 2009. At the end of the quarter, we had $157.6 million of availability under our credit facility. Our leverage ratio of total debt to EBITDA was 2.38 times at the end of the third quarter, as compared to 2.31 times one year ago. And we continue to maintain a strong balance sheet with plenty of liquidity.

As previously announced, our Board of Directors approved a share repurchase program authorizing the Company to spend up to $25 million to purchase shares of the Company's common stock. The program took effect on November 16, 2009 and will continue until December 31, 2010. During the third quarter 2010, we've repurchased a total of 141,000 shares, for $5 million, at an average price of $35.11. Since the program's inception, we have repurchased a total of 613,000 shares, for $21.3 million, at an average price per share of $34.70.

Finally, the Company had announced on November 11 that our Board of Directors had declared a regular cash dividend of $0.18 per share to be paid on December 10, 2010.

I will now turn the call back to Alec.

Alec Covington - *Nash Finch Company - CEO*

Thank you, Bob.

And I think that we'll probably recall that over the last several quarters, particularly at the end of the second quarter, I spoke specifically about our road map for the remaining part of this year. And that road map really involved two levers that we were going to pull and expedite very aggressively throughout the rest of the year. That involved good cost control management, given the difficult economic environment that we, and all food distributors and retailers, operate in today. It's necessary, obviously, to calibrate our expenses to our sales. That would be one lever that we would make sure that we managed appropriately. The second was accelerating investments in our military side of our business, to fully fill out our military footprint, to create growth opportunities for us in the future. I am proud to say, as we end the third quarter, we have clearly demonstrated our ability to execute properly in both of those areas.

Now, as we have indicated, we expected that at the end of the the quarter we would maintain about the same pace, in terms of EBITDA. We actually did see a decline, similar to what we have seen in the past, of $2.2 million during the quarter, compared to prior year. This was actually a 4.8% decline from last year. That is actually a little bit better quarter-over-quarter decline from what we saw earlier in the year realizing, of course, that this is a longer quarter for us. Also I would say that that achievement was in spite of some one-time costs that we incurred, roughly $1.1 million we spent in order to make sure that we got our new Columbus, Georgia military facility opened. We spent, as part of that $1.1 million, some additional dollars, as we acquired facilities in Bloomington and also in Oklahoma City. And then in addition to that, we still had about another half-million in costs associated with getting the final stages of our Bridgeport, Michigan facility consolidated into our Lima, Ohio facility. So when you think about all of those things, I think the decline of $2.2 million was pretty impressive when you really look at all of the moving parts and all of the things the Company accomplished inside of that.

Again, we had indicated that this is a difficult environment, and that we would always make sure that, as we have always done in the past, that we would calibrate our sales and our expenses. We have a long history of that. We have done that, once again. As a matter of fact, you'll note that the EBITDA rates on sales actually improved year-over-year from 2.8% to 2.9%, even in light of the lower sales and the difficult environment that we are operating in. That, of course, is not easy to do. It is certainly not easy to do when you're in the process of opening facilities and acquiring real estate. But I think it demonstrates the ability of the Company to execute properly on its core objectives.

Now as we look forward, we anticipate that EBITDA in the fourth quarter should actually, you know, be more flat. It might even be slightly positive. As you know, this has been a bit of an unpredictable environment that we have been in. So we don't give specific guidance, but we always try to give some indication of what to expect. So if you think about the fourth quarter, we anticipate, as I mentioned, that EBITDA will come in about flat. We really are not expecting a decline year-over-year in the fourth quarter. We hope not to be surprised in the fourth quarter. That actually is more positive than what we have seen in the first three quarters. Part of that is because of the facilities that we are opening up on the military side, but part of it, frankly, is the fact that our business really took a difficult downturn in the fourth quarter of last year that we don't anticipate seeing again this year to quite that regard. So we're expecting to be more flat as we head to the fourth quarter. Again, if we are able to do that, that would be an improvement from where we have been in the first three quarters of 2010.

As I've mentioned many times, revenues continue to be soft. It's a result of both the economic conditions that we face, but also the corresponding thrifty shopping habits of consumers. We are finding consumers are pretty thrifty. It doesn't matter whether they're shopping at supermarkets, or whether they're shopping at commissary. So sales really remain challenging in all three business units, whether we talk about corporate retail, military or food distribution, they were challenging. And as Bob mentioned, that resulted in a 4.9% sales decrease, on a comparable basis, year-over-year for the quarter.

We do believe that revenue will continue to be under pressure in the fourth quarter, for frankly the same reasons. As I've said before, our business is one that is relatively simple. Job equal prosperity, and with unemployment still hovering in the high nines and around that 10% mark, we just do not believe that the consumer is going to dramatically change in the near-term. We simply have no visibility as to when this trend will reverse itself. So we are running our business as though that it isn't going to reverse itself. We are running this business properly by making sure that we are managing the cost side, investing where it makes sense to invest. But we are not seeing an end, in the near-term, to the economic challenges that at least we are facing in the food business.

Now, one of the big impacts to our sales, frankly, has been the continual transition of the Piggly Wiggly group down in the Southeast, as Bob Dimond referenced earlier and Christopher Brown will talk about here in a second. But I want to caution you in the fourth quarter to keep in mind that we are not through that yet. There will actually be an additional $34.3 million that will impact us in the fourth quarter from prior years. So keep that in mind as we are thinking about estimating what topline sales might look like for Nash Finch in the fourth quarter.

As we look at the military side of our business, we had mentioned again that we had plans to utilize the depressed commercial real estate market in an effort to expedite and actually accelerate the expansion of our military business. We have in fact done that. The market has worked favorably with us, throughout a good part of the country. As you recall, we acquired a facility in Columbus, Georgia, back several months ago. That construction has now been completed. As you'll remember, we acquired a facility, we needed to add a freezer to it. We actually have begun shipping product out of that location. Things have gone very well, and we probably, and Ed will speak to it in detail here in a moment, but we are probably about 60% of the way through that overall transition, with a few more pieces to come. But I am very proud of the group, in the sense that that facility has opened up without any kind of thumps or bumps in the night, and they just have done a marvelous job of opening that facility, and that being a very smooth transition from the business that previously was in our Statesboro, Georgia facility, to that which is now in our Columbus, Georgia facility.

We did acquire a facility in Bloomington, Indiana, as we had indicated that we would, at the end of the second quarter. You will recall that I said there were a couple different locations where we were pursuing an acquisition of property to expand our military. We have done that, as we indicated. One of which was Bloomington, Indiana. That is about a 300,000 square-foot facility. That facility actually should be operational right after the first of the year. It will shift some military business that is currently being distributed out of our Nash Finch facility in Cincinnati, Ohio and also Cedar Rapids, Iowa. Those businesses, in terms of their military business, will transition to Bloomington here in the near-term. And that will create yet another stand-alone, military-only facility for us, which is obviously the way that we believe the business has to be run, in order to be effective both for DECA, which is the Defense Commissary Agency, in serving their needs, but also in serving the needs of our customers, through our various consumer goods packaged companies located throughout America.

We also were fortunate to acquire two facilities in Oklahoma City, Oklahoma. We will have to do some construction to one of those facilities, which that construction will begin here in 2011. And we are hopeful that we will get that facility -- those facilities brought on line early in 2012. So the commercial real estate business has worked favorable for our expansion of our military business. We actually still need one additional facility, that we are searching feverishly for while the market is still depressed. And then we will be complete with our military network, and will be at the completion of something that we set out several years ago to do. And we will actually be able to, if we are able to get this done, that will complete this military expansion of that network actually several years ahead of where we had anticipated that we might otherwise be able to accomplish that.

Now, we have always focused on managing a very conservative balance sheet. Our liquidity, as Bob mentioned, remains quite high. So we are in good shape, from that perspective. However, as we mentioned, we are spending more capital this year for investments in our future than we have in previous years. Actually, if you'll remember, we had actually intended spending $41.5 million in the third quarter alone, to expand our military network, and complete Columbus and do other things. That capital actually came in, as you notice from our press release, at $29.5 million. The difference between the $29.5 million and $41.5 million is really the difference of construction projects that fall between, in some cases the third and fourth quarter, in other cases, construction that will come in the next year. But we had actually anticipated that some of the bills for the construction in Columbus would come sooner. Those bills will hit us in the fourth quarter, so it's not like those dollars go away, it just really shifts. And then we had actually thought that it might be possible to get Oklahoma actually purchased and actually get some of that projection started. And that just did not happen in the third quarter. We did get the facilities acquired, but it will be somewhat later yet before the construction on, principally the dry side of that building, actually begins.

So again, where we had anticipated a $41.5 million capital expenditure in the third quarter, that actually came in at $29.5 million. As we look at the fourth quarter, there will be a bit of the shift from the third to the fourth. We are expecting that capital in the fourth quarter will come in at about $22.5 million. Part of that will be for, you know, some of the construction projects for Columbus, that we thought would hit in the third that will actually come in the fourth. That is actually about another $3 million of shift between the third and fourth. There's some work that we are doing in Bloomington, as well as work that will begin in Oklahoma City. And also we will complete the purchase of our Pensacola, Florida, warehouse in the fourth quarter, which will make up about $8.5 million of that number.

In addition to that,we anticipate that we will begin the process of acquiring our facility in Norfolk, Virginia in the fourth quarter by paying a down payment. We plan on paying about $2.8 million or so against that purchase in the fourth quarter, and then we hope to complete that purchase in early 2011, which will allow us to completely own the facility that we operate out of in Norfolk, Virginia, which previously has been a rental property for us. Our reason for buying the Norfolk, Virginia facility really has to do with long-term plans that we have to remodel that facility and perhaps add some automation that would help us there. And we just do not want to spend that level of capital without actually owning the building. It wouldn't make any sense to do that. So we are working with the current owners, and we hope to complete that purchase early in 2011.

With all that being said, if you add up what we intend on spending to finish the Columbus facility, the work that we have going on in Bloomington, the work that begin in Oklahoma City, the down payment that we'll make on the Norfolk purchase, the completion of the Pensacola warehouse, and then just our normal maintenance capital that we would normally spend, that is going to come in at about $22.5 million. That means that for the full year we will have spent, in 2010, about $62.5 million which is right in the zip code of what we had indicated at the end of the second quarter and really, more than anything else, represents the investment that we've made in expanding our military network.

If you look at our maintenance capital that is really required to maintain this Company, that number really has not changed much. What has really changed from 2009 to 2010 has been the investment that we have made in expanding our military footprint sensibly by buying you know, several facilities that will serve us well in the future as we grow that side of our business.

As Bob mentioned, our debt level did increase. We actually had anticipated that it would, and indicated that it would. It increased to $321.9 million. Still though, $11.5 million lower than it was a year ago, which is a good indication of the amount of cash flow that this Company generates. And, as Bob indicated, our debt ratio remains quite conservative at 2.38, in spite of the investments that we have made in our future, as well as the stock that we have purchased and other things that we have done with our capital here, during the course of the year. Again, I think all that does is continue to evidence the strong cash flow characteristics of our business, which is one of the reasons why we and our shareholders love it so much. Now by the end of the fourth quarter, we do expect our debt level to settle in somewhere between $300 million to $310 million. It will be somewhat higher than last year, as you might expect, because of the strategic investments that we have made in facilities and expanding our military footprint across the United States.

I think the other point I would make is that, if you have watched this management team over the last several years, you have seen and witnessed, and frankly, benefited from first hand, the extraordinary level that we manage this balance sheet. So, we do not take investments lightly. So for us to make that level of investments in our military distribution footprint can only be taken as a clear signal of the extreme confidence that we have in our business plan. We know where we are going in this Company. We have a clear plan to get there, and we are taking very careful but aggressive steps to get there. So we will continue to manage, with careful debt management, as well as looking at any excellent acquisition opportunities that would be consistent with our strategic plan.

As I've mentioned many times, producing superior cash flow returns remain central to our goals at Nash Finch. We set aside the capital that expanded in the second quarter for strategic reasons. Our Company generated, as Bob mentioned, a very impressive 11.6% cash flow return on net assets. And then, as I had mentioned earlier, you can see clearly in our numbers that the cost reduction initiatives that we have had in place to reduce overhead, to drive productivity, is clearly evident in our numbers. Because that's principally what has been and continues to drive our higher EBITDA rates.

Now by the time that we end the year, we believe that EBITDA results will be slightly behind 2009, as we've talked about throughout the year, partially driven by expenses associated with consolidating our Bridgeport facility in at Lima, partially driven by increases that we've saw in healthcare costs in excess of what we had planned, and partially driven by the ongoing startup and acquisition costs associated with the expansion plans that are underway within our military distribution facilities. However, as I've mentioned before, we will end up very well positioned to enjoy additional future growth through the expansion of our military distribution footprint, as we previously stated, and as we previously planned.

So all things being said, plan is being executed as we had outlined it. I think the results represent fairly well within reason of where we had indicated. Top line remains our biggest challenge, of course, as it does for the overall industry and the Company remains well-positioned to take care of those challenges from an expense perspective, along with accelerating investment in military.

Speaking of military, we do have Ed Brunot with us, as I mentioned, the President and Chief Operating Officer of our military business, and I have asked him just to shed a few lights of flavor on the military segment of our business.

Ed?

Ed Brunot - *Nash Finch Company - President & COO - MDV*

Thank you, Alec. Good morning.

I would like to start this morning with the military segment results for the quarter. Our sales came in at $620.8 million, down 2.5% to last year, primarily due to timing differences between the quarters relating to our export shipments. Our segment EBITDA came in at $15.9 million, or 2.6% of sales, versus $15.7 million, or 2.5% of sales, in 2009. As I look at the military business, I think the headline is military families are hurting. As Alec has mentioned, the high unemployment and economic conditions are causing hardships on military personnel and their extended families. We are seeing food stamp and WIC usage up double digits this year. Commissary patrons are still using the benefit, but they are trading down and/or buying less.

As I've stated with the numbers over the years, we have been unable to accurately predict the timing of month to months sales to Europe, which in turn influences our topline sales results quarter to quarter. As is noted in the press release, our third quarter export sales were less than anticipated but we remain right on plan year-to-date and we anticipate this to continue.

Even though the economy has taken a little wind out of our sails, and MDV remains resilient and strong, but we do not anticipate seeing growth returning until jobs around the bases we service and the economy recovers. With pressure on the topline sales, I would like to say that our entire team is doing an outstanding job of controlling expenses and capitalizing on opportunities. This has resulted in several positive outcomes. First, in spite of the tough economy, we have realized significant operational improvements which are positively impacting the business, as evidenced in our improved EBITDA results. As Alec mentioned, the economic environment has allowed us to expedite our military only footprint expansion, due to the pressure that the economic times have placed on the commercial real estate markets. We are very pleased that Columbus is open and operational. Together with Pensacola, this will allow us to drive efficiencies by reducing round-trip miles to service our customers. We're now focusing on opening our new military facility in Bloomington, Indiana, and next year we will focus on opening our Oklahoma City facilities. And again, as Alec mentioned, we anticipate this to occur early in the first quarter of 2012.

To sum things up, MDV remains completely focused on servicing our armed service heros and their families, whether at home or abroad, and I would now like to turn it back over to Alec Covington.

Alec Covington - *Nash Finch Company - CEO*

Thanks, Ed.

Ed was talking about the difficulties that our enlisted and retirees face. We actually see that evidenced by the amount of unemployment that is around some of the bases. We fail to realize, sometimes, that these bases are impacted not only by the enlisted and the retirees, but by the jobs of the spouses and the extended families also both the enlisted and retirees. With unemployment as high as it is around some of those bases, you know, they are under a lot of pressure. Ed mentioned the use of food stamps and how much that has grown. He also mentioned an acronym which I wanted to explain, which he referred to as WIC. For those of you that may not know, that's women, infants, and children. It is a program provided to make sure that infants and their mothers are properly taken care of, you know, during the early stages of childcare.

So with that, I think that is a good balanced view of the military business. I would now like to turn our attention to our traditional food distribution and retail business. I would like to do that by handing the call over to Christopher Brown, the President and Chief Operating Officer of that business.

Christopher Brown - *Nash Finch Company - President & COO - Food Distribution*

Thank you, Alec, and good morning.

Sales for wholesale and retail were $890.1 million. As mentioned, biggest impact to our sales for the quarter was the previously announced transition of a customer in the Southeast. That accounted for 4.2% of the negative 10.7% in sales that we experienced year-over-year. Also we closed some stores, four stores in our corporate retail group of stores. That accounted for 1.3%. When you break down our sales, of the sales net of the transition of the Piggly Wiggly stores or the closed stores, our net sales are down 5.2%. So when you look at the 5.2% and you think of the causes, you think of the headwind that we are experiencing that was previously discussed, obviously a very competitive environment. But the consumer shopping habits have changed, with some transaction sizes down, a significant amount of effort from consumers in value shopping.

Also in the quarter we experienced some impact from deflation. And I will touch on the a little later, as to what we see, that we are starting to see going forward. But bottom line is, the economy and the unemployment hit in the areas and the markets we service.

And to put a little flavor on that, in the state of Minnesota there's over 440,000 people now on food stamps. That is equivalent to the entire population of Minneapolis. To fight this headwind and to keep our Company achieving our financial targets, we are running this business as this tough market and this tough economy as the new normal. And we continue to reap out the investments -- the benefits of our supply chain investments, whether it be our upstream facility in the Great Lakes, the continued investment that we have made into our Transportation Department, as we look inside our support services to the independents, whether it be our center store program, assisting them with the marketing. And when I refer to that, specifically helping our retailers articulate value to their consumers at a higher level than they have ever done before. Alec mentioned the transition in the third quarter of our Bridgeport division customers down to Lima, and also preparing ourselves for the holiday in a very competitive marketplace.

So when we look at the quarter and all of the things that we accomplished, it was about controlling costs in a very tough economy when it comes to sales, and working as close as possible with our customers on the value message to their consumers. A comment on inflation, we are starting to see some inflation as we look forward. When you look at some of the year-over-year numbers of key commodities, you are seeing significant increases in soybeans and corn and sugar, and it is starting to show up in some of the price advances that we are seeing from the manufacturers and ultimately out to the consumer.

So with all the headwind on sales when we look at the quarter, our segment EBITDA was 3.1%, versus last year of 3%, for a total of $27.9 million. So we will continue to work in this challenged environment, to service our customers and providing them not only the goods, but the services for them to continue to compete in their marketplace.

Thank you, Alec.

Alec Covington - *Nash Finch Company - CEO*

All right, Christopher. Thank you very much.

And Sara, if we can enlist your assistance, we'd like to address whatever questions or comments we might have from the telephone audience today.

QUESTIONS AND ANSWERS

Operator

Thank you, Mr. Covington. (Operator Instructions)

We will take our first question from Ajay Jain with Hapoalim Securities.

Ajay Jain - *Hapoalim Securities - Analyst*

Hello. Good morning.

I wanted to get some clarification on the sales deceleration in the military segment. Is it possible to break out the year-over-year impact, in terms of how much of the 2% decline was related to the timing on the export shipments and how much of the decrease was based on domestic sales?

Alec Covington - *Nash Finch Company - CEO*

Yes, Ajay, this is Alec. I will put some flavor on it, and then lean on Bob and Ed, if it's necessary, for further comments.

I think if you look at it, they kind of rank this way. First of all, we know that we have a difficult economy out there. So we did not expect our domestic sales to commissaries to actually grow year-over-year, given the environment they are in. And actually, they didn't. We're a reflection of the Defense Commissary Agency network, which is actually running at a negative sales, comparable sales results right, at least they ended the year that way, when they ended their year in September. So, when we look at domestic sales, we are less than 1% in terms of a decline to domestic commissaries.

The rest really came from really two items. Once was, as Ed mentioned, the shipments to exports that came earlier in the year and were light in the third quarter. Actually right now, as we speak, those export shipments are heavier than we had anticipated. And to Ed's point, we have been doing this now for several years. We have never gotten it right in terms of trying to out-guess when those shipments are going to come. We are always thankful when they show up, but we can never guess them properly. And then the second -- the third smaller impact really came from AAFEES, as we call it, which is the Army Air Force Exchange, which had relied on us for some distributions of product from specifically Unilever, which has now made more sense to ship direct. So that doesn't really have anything to do with our commissary business, but it is in our numbers.

So when you look at the influences of the quarter, it was less about any further or accelerated deterioration in the commissary business, it was really more about the timing of the export shipments and, to a smaller degree, a change that was made by AAFEES, which made sense by the way, which actually impacted our distribution business in the quarter to shipments that were not part of our commissary network.

Does that help you?

Ajay Jain - *Hapoalim Securities - Analyst*

No, that's helpful. So, just relative to the 2.5% decrease in the third quarter, I just want to make sure I understand, we should not expect a further rate of deceleration in military sales in the fourth quarter, is that correct?

Alec Covington - *Nash Finch Company - CEO*

We do not expect that we are going to turn positive this year at all in the military side of our business. We would not be surprised to see another quarter where we are running behind. We hope it will be flat or maybe, we would love to see at some point in time it would pop up above.

You're not going -- we are not on some sort of trajectory that you should worry about, that it's gone from X to Y, and now it's going to be something wore than that. Because those export shipments will actually flip flop around the other way in the fourth quarter. So, we don't expect that rate of decline to accelerate at all in the fourth quarter. If anything, it might be a little bit better in the fourth quarter that when it was in the third.

Ajay Jain - *Hapoalim Securities - Analyst*

And, Alec, can you comment on any emerging competitive threats that you might be dealing with, on the military side? I'm just trying to get a handle on whether the end-market demand is shrinking, as Ed sort of alluded to earlier? Or, if there might be any market share issues involved as well?

Alec Covington - *Nash Finch Company - CEO*

In our case, there currently is not any market share issues. Those are really two different issues and two different answers. We track our business incredibly close, obviously all throughout, but on the military business well. We know exactly when there is a shift from any distribution business from one distributor to another.

Having said that, we've always had intense competition on the military side of our business, you know, from many other players such as Supervalu, C&S and others. Needless to say, with the economic downturn and the pressures that food wholesalers are having, that competition has certainly not gotten any less. As a matter of fact, we've had new company in the business which, you know, we are not surprised by, and it's a little bit, I think, of the evidence that our strategy with military was right. Because there are more people, obviously, that are looking at that as a salvation, kind of a safety place to go when some of their other business is not working quite so well.

It has always been amazing to me that distributors, when everything is going well in their business and they are bringing on new customers and they are shipping products and they're having growth, the military business just isn't anything they ever think about. You never hear it talked about. There are distributors out there that are literally 50, 60, 70 years old and has never mentioned the military business until the last eight months. It's amazing. But then, all of a sudden, when their business becomes under pressure, military becomes the new religion and the way that they are going to solve the problems in their business. We have seen that before. We have seen it come and go. In this economy, we have to expect that it's going to occur. And it is occurring.

We have seen distributors who have not had any interest in serving military bases in the past, all of a sudden become interested in serving military bases because something else has gone wrong in the other part of their business. That is nothing new to us. Will it impact us? Sure, it will. Will it impact us to any a big degree? We don't anticipate that it will. We don't have any plans in our numbers, you know, that is anticipating that. Our relationship remains very sound with our large customers on the military side of our business.

However, you know, when you have somebody out there, particularly as we have experienced recently in the Southwest, that is offering (inaudible) rates 40%, 50%, 60% of what we are distributing them for, because they are in that case desperate to grow their business, than you are going to see, you know, small CPG companies, in some cases you know, take that opportunity and move. Even if long-term it doesn't work out, you know, short-term it it's still an economic gain to them. We will stay the course on what we have done, what we have built, and the way we are executing our plan.

So we don't have any big concerns about any of that. We have always had competition, Ajay, in this business. We anticipate it's not going to get any easier, with the economic downturn and some food wholesalers hurting in other parts of their business. We know that they are going to get more interested in the military business. We are aware of that, prepared for that.

But we don't see any kind of major shifts that we are aware of, at least at this point, occurring in the future other than, obviously, when you have those kinds of offers out there, you are going to see some changes back and forth. By the same token, we have had vendors that have recently announced that they are coming our way, from other distributors. So it's kind of back-and-forth, as it always is. But nothing big, if that is what you're asking.

Ajay Jain - *Hapoalim Securities - Analyst*

Okay.

And if I could just ask one more question. I am sure you've got some pre-opening expenses that you are going to need to absorb for the new warehouse capacity in Oklahoma and Indiana. Obviously, you've got some cost savings there, as well.

Can you just talk about how long it's going to take for those new facilities to be better than break-even? And if you could quantify at all how much EBITDA expansion or margin opportunity in military that you are expecting to see over the balance of the year? I know that you are guiding to flat to positive on a consolidated basis, I'm just trying to figure out how much the new warehouse capacity is going to move the needle.

Alec Covington - *Nash Finch Company - CEO*

Yes. Our decision actually to do that, Ajay, was one that we knew would actually negatively impact the current year we are in, in hopes that it would, and our belief being, that it would better position us for an improved year in 2011. So actually all of the things we have done to open and acquire Columbus, Bloomington, and Oklahoma City were actually all negative takeaways in the current year we are in, in aggregate. But then when we roll into 2011 we should have the bulk of the pre-opening cost behind us in Columbus, and we will begin shifting out of Bloomington, but yet we will have pre-opening costs going on a little bit in Bloomington and somewhat down in Oklahoma City.

So I think as we get further along, quarter by quarter, we will be able to give you a bit more visibility of that. One of the things that is always difficult is, it difficult to time these construction products. So much of it is contingent upon those construction projects. What I would tell you is, is we would expect that Columbus going into 2011 will be a positive contributor to us. But the take way to that is, that will be mitigated or muted somewhat with some of the opening costs we will have in Bloomington and that we will have an Oklahoma City. So it kind of layers on top of itself.

So late in 2011 we should see some net net benefits of all the things that we have done, but for right now, in 2010 and early in 2011, it is actually a negative to our business. So the fact that he's flat, and holding on from a bottom-line perspective, actually means that his underlying business has improved and he's been able to overcome that. Because there was -- in this quarter alone, there was $1.1 million in military opening costs that he had to absorb just to get the results that he achieved for this particular quarter.

Ajay Jain - *Hapoalim Securities - Analyst*

Okay. Thank you.

I will get out of the queue. Thank you.

Operator

(Operator Instructions).

Our next question comes from Chris McGinnis with Sidoti and Company.

Chris McGinnis - *Sidoti & Company - Analyst*

Hello. Good morning.

Alec Covington - *Nash Finch Company - CEO*

Hello, Chris.

Chris McGinnis - *Sidoti & Company - Analyst*

Just a question on the wholesale distribution itself. Backing out the loss of the customer, can you just dig a little bit more into the 4.6 decline? Maybe what is driving that -- how much of that is deflation compared to the change in mix, and then maybe just -- I don't know if it's possible to say, but maybe attrition a little bit of the customer as while.

Alec Covington - *Nash Finch Company - CEO*

Yes, thanks, Chris.

I would say that the bulk of that 4.6 is actually the result of shipping less to existing customers. Meaning that their market share is under challenge, as we know with the aggressive activity that we have seen out there from various competitors throughout this recession. It has not gotten any easier. It's more of a function of shipping less to the same customers than it is shipping to less customers.

Now, have we seen some attrition? Have some of the guys, you know, not survived the journey through this recession? Yes, we always have some attrition in our business. The attrition through this recession actually has been surprisingly low from what we might have otherwise predicted at the beginning of this recession. Now the longer that it goes on, the more we get worried about more and more attrition. But for right now, we have not seen a remarkably higher attrition rate than we had seen in the past. What we are really seeing is a decline in the amount of product being shipped to existing customers, which is really a reflection of the competitive environment out there, and their individual market shares, more than anything else. So that is really the cause.

Now as we look at the third quarter specifically, it had less to do with deflation because actually in the third quarter, as Christopher mentioned, we actually saw a little bit of light and glimmer of light of inflation in some commodities, particularly if you look in the perishable area, you'll see there was actually even in the third quarter some inflation in several categories. You know, what we are seeing, though, Chris, is that the consumer reacts differently to rising prices in a recession than the consumer does in good times.

In the case of a difficult environment that we're in now, increases in retail prices stemming from inflation only further drive the consumer to shop down, as opposed to a good environment with high employment or people might otherwise, you know, accept those price increases. They just will not accept those price increases now. They tend to shop more down, they buy more private labels, on sale, on ads, on coupons. So inflation does not really give the benefit to the top line, at least in our view, in this economic environment that we would have seen in an otherwise normal economic environment. Because the consumer still only has X amount of dollars to spend from the grocery budget. So the fact that manufacturers choose to raise prices is no reflection that the consumer is actually going to spend more. It becomes more of a reflection of what she's willing to buy.

So I would say the decline in sales, in food distribution specifically, had more to do with the market share losses of our customers more than it did an actual loss of customers. And certainly, it had more to do with that than it does with any impact of deflation itself.

Chris McGinnis - *Sidoti & Company - Analyst*

I guess just a follow-up.

Obviously, you are pretty focused on growing the military side of the business. I know you have talked about it in the past, but just can you maybe just think about strategy on the wholesale side? I know you talked about acquisitions in the past. Just maybe what your thought is, especially in the environment as difficult as you were talking about.

Alec Covington - *Nash Finch Company - CEO*

Yes. Let me just say, the food distribution side of our business remains a part of our company that we are very dedicated toward. We are very good at it. We have very loyal customers. The team there, under Christopher's direction, has done nothing short of a marvelous job of driving productivity to offset the impact of the economic factors that we face, probably more than anybody you have seen in the business. So we are very proud of what has been accomplished there.

However, there is nothing that we can do to change the economy or the dynamics of the industry. So all we can do is develop a strategy around, what would opportunities look like in this business if they came? And I think, you know, as we see opportunities, they come in two forms. One of the things that we anticipate seeing, as we've witnessed in the past, is that we believe this recession and economic environment will actually drive more and accelerate the consolidation in that side of the business. It would not be surprising to us that there might be a distributor within our geography who one day gets down to such a critical low level that they just can't or choose not to play in that ballgame anymore. And when that would be the case, it would be our position, with the balance sheet that we have, to step in and provide an exit to them and enjoy the benefits of that ourself. So we think that is one logical assumption and logical possibility that we keep our eye on all the time. You can't time that, you cannot make that happen.

The second thing that we believe is eminent in this, and we are actually seeing it, I think when the recession began, the inclination of most independent operators was to hold on and wait out the cycle. So if they might have been thinking about making a wholesaler change, for whatever reason, they probably were less likely to make that change at the beginning of this recession because their mindset was more let's don't make any major changes, let's hunker down, let's manage through the recession. What we are now seeing is a lot of interest coming our way from customers who perhaps are seeing that this is not a cycle. This is perhaps the new normal they are going to have to live with for a while. So we are seeing more opportunities actually in the near-term to talk to other customers who are currently being supplied by other distributors. So we think that represents, longer-term, an opportunity to offset that attrition with more customer gains in the future.

So we think the opportunities are twofold. Growing organically, because of customers who are looking for more services, a wholesaler that has built programs around their needs as opposed to trying to balance between their old self-distribution and that of customers. And then secondarily, potential consolidation driven by the difficulties in this environment and the economy. That is really how we see it.

We again, we are proud of it. We are happy with it. We seem to have a very strong and loyal following in the marketplace. So we do no worry about this business tremendously overnight. We will continue on that course. We think that that path will continue to pay good dividends for our shareholders.

Chris McGinnis - *Sidoti & Company - Analyst*

Okay. Thank you very much.

Alec Covington - *Nash Finch Company - CEO*

Thanks.

Sara, are their other questions we could answer?

Operator

At this time there are no further questions from the phone lines -- actually, we do. We have a follow up question from Ajay Jain with Hapoalim Securities

Ajay Jain - *Hapoalim Securities - Analyst*

Yes. Thank you.

Alec, I was interested in your comments on inflation in the current environment.

Operator

Ajay Jain - *Hapoalim Securities - Analyst*

remember around this time last year, I think you predicted, and I think predicted correctly, that there was a potential for increased vendor support, but that it would probably need to be reinvested in by lower prices by the industry.

So hopefully I am not putting words in your mouth, but as you look at the operating environment for your own retailing operations and for your distribution customers, both from a top line and gross margin perspective, do you see comparisons getting any easier as you are about to enter the fourth

Alec Covington - *Nash Finch Company - CEO*

Well, I will say that we have provided an indication of optimism, in the sense that we do not believe that our business will actually fall short or prior year in the fourth quarter. So the fact that we have been running behind at an EBITDA level for the entire year and now we are suggesting that there's a chance that we would bring that in flat in the fourth quarter, and with a real stroke of luck, actually improve to prior-year in the fourth quarter is an indication that we are feeling better about our business as we go into the fourth quarter. Now, I would say that it's driven not by, some belief that we are going to have a dramatic acceleration in the topline. But I think the deflation that we have had to maneuver around in our inventories here, off and on for a year, as commodities have regained composure and then collapsed again. You know, we think that is behind us. And we are not forecasting margin pressures from deflation in the fourth quarter. As a matter of fact, we think that we will see inflation in our inventories potentially in the fourth quarter. So that gives us some comfort about the fourth quarter as well.

I think, though, that as we look at the holiday season, because of the timing of our call, we don't always have the visibility, because of the calendar, that we'd like to have into the fourth quarter and now the holidays are really going to come out. We saw last year early in the holiday season some extraordinary unprecedented aberrations of pricing by some of our competitors, most notably Wal-Mart, who came out with $0.39 or $0.40 turkeys pretty much in our entire marketing area. I am looking across the table at Christopher, to this date I have not been made aware of that we saw a repeat of that within the marketing area. So, so far, so good.

Now those kinds of things, Ajay, makes us feel a little bit better about the holiday season. We saw some just -- not just from a CPG perspective, but from a retail competitor perspective, we saw irrational behavior in the fourth quarter of last year that just really had an impact on our business,not just from Wal-Mart but from others. And we think that perhaps there has been some lessons learned from that. We hope at least there has been some lessons learned from that. And that maybe, not that competition is going to get any easier this holiday season, but maybe the actions will be more rational and they will be more representative of what we have experienced in years past. But I will tell you that sitting here today, we are still so far ahead of the thick of the holiday season that I can only feel so secure in that.

So we do feel better about our business in the fourth quarter from a bottom-line perspective, in the sense that we don't think we are going to repeat the quarter over quarter decline like we have seen throughout the year. But we feel a little bit cautious about the top line. Having said that, we are not seeing, as yet, the irrational behavior we saw last year during the holiday selling season.

Ajay Jain - *Hapoalim Securities - Analyst*

Great. Thank you very much.

Alec Covington - *Nash Finch Company - CEO*

Thank you.

Sara, is there anything goes?

Operator

At this time, there are no further questions.

Mr. Covington, I would like to turn the conference back over to you for any closing remarks.

Alec Covington - *Nash Finch Company - CEO*

All right.

Well, listen. I think, as I've said before, we can't, nor should we be trying to forecast the end of this recession. All we can do is really manage our own business. And in light of the environment we're in, the competitive pressures and the recession, what we can do is manage our costs. And we have been doing that, we continue to do that. We will continue to focus on that in the future. And we can manage the investments that we make in our business and in our future, and we have been doing that prudently by investing in our military network and will continue to do that in the months and quarters ahead.

With that, thank you very much for your participation in the call and we look forward to talking to you at the end of the fourth quarter. Thank you very much.

Operator

This does conclude today's conference. Thank you for your participation.
