

SYSCO CORP
Form 10-K
August 28, 2007

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

Form 10-K

(Mark One)

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

For the fiscal year ended June 30, 2007

OR

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

Commission File Number 1-6544

Sysco Corporation

(Exact name of registrant as specified in its charter)

Delaware

*(State or other jurisdiction of
incorporation or organization)*

1390 Enclave Parkway

Houston, Texas

(Address of principal executive offices)

74-1648137

*(IRS employer
identification number)*

77077-2099

(Zip Code)

Registrant's Telephone Number, Including Area Code:

(281) 584-1390

Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class

**Name of each exchange on
which registered**

Common Stock, \$1.00 par value

New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:

None

Indicate by checkmark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by checkmark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).
Yes No

The aggregate market value of the voting stock of the registrant held by stockholders who were not affiliates (as defined by regulations of the Securities and Exchange Commission) of the registrant was approximately \$20,656,409,000 as of December 30, 2006 (based on the closing sales price on the New York Stock Exchange Composite Tape on December 29, 2006, as reported by The Wall Street Journal (Southwest Edition)). As of August 15, 2007, the registrant had issued and outstanding an aggregate of 609,972,298 shares of its common stock.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the company's 2007 Proxy Statement to be filed with the Securities and Exchange Commission no later than 120 days after the end of the fiscal year covered by this Form 10-K are incorporated by reference into Part III.

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PART I

ITEM 1. Business

Unless this Form 10-K indicates otherwise or the context otherwise requires, the terms we, , our, us, SYSCO, or company as used in this Form 10-K refer to Sysco Corporation together with its consolidated subsidiaries and divisions.

Overview

Sysco Corporation, acting through its subsidiaries and divisions, is the largest North American distributor of food and related products primarily to the foodservice or food-prepared-away-from-home industry. Founded in 1969, we provide products and related services to approximately 391,000 customers, including restaurants, healthcare and educational facilities, lodging establishments and other foodservice customers.

SYSCO, which was formed when the stockholders of nine companies exchanged their stock for SYSCO common stock, commenced operations in March 1970. Since our formation, we have grown from \$115 million to over \$35 billion in annual sales, both through internal expansion of existing operations and through acquisitions. Through the end of fiscal 2007, we have acquired 141 companies or divisions of companies.

During fiscal 2007, we completed the acquisition of Bunn Capitol, a foodservice distributor located in Springfield, Illinois.

SYSCO Corporation is organized under the laws of Delaware. The address and telephone number of our executive offices are 1390 Enclave Parkway, Houston, Texas 77077-2099, (281) 584-1390. This annual report on Form 10-K, as well as all other reports filed or furnished by SYSCO pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, are available free of charge on SYSCO's website at www.sysco.com as soon as reasonably practicable after they are electronically filed with or furnished to the Securities and Exchange Commission.

Operating Segments

SYSCO provides food and related products to the foodservice or food-prepared-away-from-home industry. Under the provisions of SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information (SFAS 131), we have aggregated our operating companies into a number of segments, of which only Broadline and SYGMA are reportable segments as defined in SFAS 131. Broadline operating companies distribute a full line of food products and a wide variety of non-food products to both our traditional and chain restaurant customers. SYGMA operating companies distribute a full line of food products and a wide variety of non-food products to chain restaurant customer locations. Other financial information is attributable to our other segments, including our specialty produce, custom-cut meat and lodging industry products segments and a company that distributes to internationally located chain restaurants. Specialty produce companies distribute fresh produce and, on a limited basis, other foodservice products. Specialty meat companies distribute custom-cut fresh steaks, other meat, seafood and poultry. Our lodging industry products company distributes personal care guest amenities, equipment, housekeeping supplies, room accessories and textiles to the lodging industry. Selected financial data for each of our reportable segments as well as financial information concerning geographic areas can be found in Note 17, Business Segment Information, in the Notes to Consolidated Financial Statements in Item 8.

Customers and Products

The foodservice industry consists of two major customer types traditional and chain restaurant. Traditional foodservice customers include restaurants, hospitals, schools, hotels and industrial caterers. Our chain restaurant customers include regional and national hamburger, sandwich, pizza, chicken, steak and other chain operations.

Services to our traditional foodservice and chain restaurant customers are supported by similar physical facilities, vehicles, material handling equipment and techniques, and administrative and operating staffs.

The products we distribute include:

a full line of frozen foods, such as meats, fully prepared entrees, fruits, vegetables and desserts;

a full line of canned and dry foods;

fresh meats;

imported specialties; and

fresh produce.

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We also supply a wide variety of non-food items, including:

paper products such as disposable napkins, plates and cups;

tableware such as china and silverware;

cookware such as pots, pans and utensils;

restaurant and kitchen equipment and supplies; and

cleaning supplies.

Our operating companies distribute nationally-branded merchandise, as well as products packaged under our private brands. Products packaged under our private brands have been manufactured for SYSCO according to specifications that have been developed by our quality assurance team. In addition, our quality assurance team certifies the manufacturing and processing plants where these products are packaged, enforces our quality control standards and identifies supply sources that satisfy our requirements.

We believe that prompt and accurate delivery of orders, close contact with customers and the ability to provide a full array of products and services to assist customers in their foodservice operations are of primary importance in the marketing and distribution of products to traditional customers. Our operating companies offer daily delivery to certain customer locations and have the capability of delivering special orders on short notice. Through our more than 14,400 sales and marketing representatives and support staff of SYSCO and our operating companies, we stay informed of the needs of our customers and acquaint them with new products and services. Our operating companies also provide ancillary services relating to foodservice distribution, such as providing customers with product usage reports and other data, menu-planning advice, food safety training and assistance in inventory control, as well as access to various third party services designed to add value to our customers' businesses.

No single customer accounted for 10% or more of our total sales for the fiscal year ended June 30, 2007.

Our sales to chain restaurant customers consist of a variety of food products. We believe that consistent product quality and timely and accurate service are important factors when a chain restaurant selects a foodservice supplier. One chain restaurant customer (Wendy's International, Inc.) accounted for 5% of our sales for fiscal year ended June 30, 2007. Although this customer represents approximately 39% of the SYGMA segment sales, we do not believe that the loss of this customer would have a material adverse effect on SYSCO as a whole.

Based upon available information, we estimate that sales by type of customer during the past three fiscal years were as follows:

Type of Customer	2007	2006	2005
Restaurants	64%	63%	64%
Hospitals and nursing homes	10	10	10
Schools and colleges	5	5	5
Hotels and motels	6	6	6
Other	15	16	15
Totals	100%	100%	100%

Sources of Supply

We purchase from thousands of suppliers, none of which individually accounts for more than 10% of our purchases. These suppliers consist generally of large corporations selling brand name and private label merchandise, as well as independent regional brand and private label processors and packers. Generally, purchasing is carried out through centrally developed purchasing programs and direct purchasing programs established by our various operating companies. We continually develop relationships with suppliers but have no material long-term purchase commitments with any supplier.

In the second quarter of fiscal 2002, we began a project to restructure our supply chain (National Supply Chain project). This project is intended to increase profitability by lowering aggregate inventory levels, operating costs, and future facility expansion needs at our broadline operating companies while providing greater value to our suppliers and customers.

The National Supply Chain project involved the creation of the Baugh Supply Chain Cooperative, Inc. (BSCC), which administers a consolidated product procurement program designed to develop, obtain and ensure consistent quality food and non-food products. The program covers the purchasing and marketing of SYSCO Brand merchandise as well as products from a number of national brand suppliers, encompassing substantially all product lines. The operating companies can choose to purchase product from the suppliers participating in the cooperative's programs or from other suppliers, although SYSCO Brand products are only available to the operating companies through the cooperative's programs.

The National Supply Chain project has three major supply chain initiatives actively underway. The first initiative involves the construction and operation of regional distribution centers which will aggregate inventory demand to optimize the supply chain activities for certain products for all SYSCO broadline operating companies in the region. We currently expect to build five to seven redistribution centers (RDCs). The first of these centers, the Northeast RDC located in Front Royal, Virginia, opened during the third

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quarter of fiscal 2005. A second RDC located in Alachua, Florida is being constructed and is expected to become operational in the latter half of fiscal 2008. SYSCO has purchased the site for a third RDC in Hamlet, Indiana. The second initiative is the national transportation management initiative, which provides the capability to view and manage all of SYSCO's inbound freight, both to RDCs and the operating companies, as a network and not as individual locations. As of June 2007, all inbound freight to United States broadline operating companies is managed centrally. The third initiative is the national implementation of demand planning and inventory management software. This project is strategically important in that it creates the foundation to effectively execute new supply chain processes, including redistribution, as well as efficiently manage our inventory assets.

Working Capital Practices

Our growth is funded through a combination of cash flow from operations, commercial paper issuances and long-term borrowings. See the discussion in Liquidity and Capital Resources under Management's Discussion and Analysis of Financial Condition and the Results of Operations at Item 7 regarding our liquidity, financial position and sources and uses of funds.

Credit terms we extend to our customers can vary from cash on delivery to 30 days or more based on our assessment of the customers' credit risk. We monitor the customers' accounts and will suspend shipments to customers if necessary.

A majority of our sales orders are filled within 24 hours of when the customers' orders are placed. We will generally maintain inventory on hand to be able to meet customer demand. The level of inventory on hand will vary by product depending on shelf-life, supplier order fulfillment lead times and customer demand. We also make purchases of additional volumes of certain products based on supply or pricing opportunities.

We take advantage of suppliers' cash discounts where appropriate and otherwise generally receive payment terms from our suppliers ranging from weekly to 30 days or more.

Corporate Headquarters Services

Our corporate staff makes available a number of services to our operating companies. Members of the corporate staff possess experience and expertise in, among other areas, accounting and finance, cash management, information technology, employee benefits, engineering, risk management and insurance. The corporate office makes available legal, marketing, payroll, human resources, training and development, information technology and tax compliance services. The corporate office also makes available warehousing and distribution services, which provide assistance in space utilization, energy conservation, fleet management and work flow.

Capital Improvements

To maximize productivity and customer service, we continue to construct and modernize our distribution facilities. During fiscal 2007, 2006 and 2005, approximately \$603,242,000, \$513,934,000 and \$390,026,000, respectively, were invested in facility expansions, fleet additions and other capital asset enhancements. We estimate our capital expenditures in fiscal 2008 should be in the range of \$625,000,000 to \$650,000,000. During the three years ended June 30, 2007, capital expenditures were financed primarily by internally generated funds, our commercial paper program and bank and other borrowings. We expect to finance our fiscal 2008 capital expenditures from the same sources.

Employees

As of June 30, 2007, we had approximately 50,900 full-time employees, approximately 18% of whom were represented by unions, primarily the International Brotherhood of Teamsters. Contract negotiations are handled by each individual operating company. Approximately 26% of our union employees are covered by collective bargaining agreements which will expire during fiscal 2008. We consider our labor relations to be satisfactory.

Competition

SYSCO's business environment is competitive with numerous companies engaged in foodservice distribution. Our customers may also choose to purchase products directly from retail outlets. While competition is encountered primarily from local and regional distributors, a few companies compete with us on a national basis. We believe that the principal competitive factors in the foodservice industry are effective customer contacts, the ability to deliver a wide range of quality products and related services on a timely and dependable basis and competitive prices. We estimate that we serve about 15% of an approximately \$225 billion annual market that includes the foodservice and

hotel amenity, furniture and textile markets both in the United States and Canada. We believe, based upon industry trade data, that our sales to the United States and Canada food-prepared-away-from-home industry were the highest of any foodservice distributor during fiscal 2007. While adequate industry statistics are not available, we believe that in most instances our local operations are among the leading distributors of food and related non-food products to foodservice customers in their respective trading areas.

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Government Regulation

As a marketer and distributor of food products, we are subject to the U.S. Federal Food, Drug and Cosmetic Act and regulations promulgated thereunder by the U.S. Food and Drug Administration (FDA), as well as the Canadian Food and Drugs Act and the regulations thereunder.

The FDA regulates manufacturing and holding requirements for foods through its manufacturing practice regulations, specifies the standards of identity for certain foods and prescribes the format and content of certain information required to appear on food product labels. For certain product lines, we are also subject to the Federal Meat Inspection Act, the Poultry Products Inspection Act, the Perishable Agricultural Commodities Act, the Packers and Stockyard Act and regulations promulgated thereunder by the U.S. Department of Agriculture (USDA). The USDA imposes standards for product quality and sanitation including the inspection and labeling of meat and poultry products and the grading and commercial acceptance of produce shipments from our suppliers. We are also subject to the Public Health Security and Bioterrorism Preparedness and Response Act of 2002, which imposes certain registration and record keeping requirements on facilities that manufacture, process, pack or hold food for human or animal consumption.

In Canada, the Canadian Food Inspection Agency administers and enforces the food safety and nutritional quality standards established by Health Canada under the Canadian Food and Drugs Act and under other related federal legislation, including the Canada Agricultural Products Act, the Meat Inspection Act, the Fish Inspection Act and the Consumer Packaging and Labeling Act (as it relates to food). These laws regulate the processing, storing, grading, packaging, marking, transporting and inspection of certain SYSCO product lines as well as the packaging, labeling, sale, importation and advertising of pre-packaged and certain other products.

We and our products are also subject to state, provincial and local regulation through such measures as the licensing of our facilities; enforcement by state, provincial and local health agencies of state, provincial and local standards for our products; and regulation of our trade practices in connection with the sale of our products. Our facilities are subject to inspections and regulations issued pursuant to the U.S. Occupational Safety and Health Act by the U.S. Department of Labor, together with similar occupational health and safety laws in each Canadian province. These regulations require us to comply with certain manufacturing, health and safety standards to protect our employees from accidents and to establish hazard communication programs to transmit information on the hazards of certain chemicals present in products we distribute.

We are also subject to regulation by numerous U.S. and Canadian federal, state, provincial and local regulatory agencies, including, but not limited to, the U.S. Department of Labor and each Canadian provincial ministry of labour, which set employment practice standards for workers, and the U.S. Department of Transportation and the Canadian Transportation Agency, which regulate transportation of perishable and hazardous materials and waste, and similar state, provincial and local agencies.

Most of our distribution facilities have ammonia-based refrigeration systems and tanks for the storage of diesel fuel and other petroleum products which are subject to laws regulating such systems and storage tanks. Other U.S. and Canadian federal, state, provincial and local provisions relating to the protection of the environment or the discharge of materials do not materially impact the use or operation of our facilities.

Compliance with these laws has not had, and is not anticipated to have, a material effect on our capital expenditures, earnings or competitive position.

General

We have numerous trademarks which are of significant importance to the company. The loss of the SYSCO(R) trademark would have a material adverse effect on our results of operations.

We are not engaged in material research and development activities relating to the development of new products or the improvement of existing products.

Our sales do not generally fluctuate significantly on a seasonal basis; therefore, the business of the company is not deemed to be seasonal.

As of June 30, 2007, we operated 177 distribution facilities throughout the United States and Canada.

Table of Contents**Item 1A. Risk Factors***Our Low Margin Business May Be Negatively Impacted by Product Cost Deflation, Product Cost Inflation or Other Economic Conditions*

The foodservice distribution industry is characterized by relatively high inventory turnover with relatively low profit margins. We make a significant portion of our sales at prices that are based on the cost of products we sell plus a percentage markup. As a result, our profit levels may be negatively impacted during periods of product cost deflation, even though our gross profit percentage may remain relatively constant. Prolonged periods of product cost inflation also may have a negative impact on our profit margins and earnings to the extent that we are unable to pass on such product cost increases. The foodservice industry is sensitive to national and regional economic conditions. Inflation, fuel costs and other factors affecting consumer confidence and the frequency and amount spent by consumers for food prepared away from home may negatively impact our sales and operating results. Our operating results are also sensitive to, and may be adversely affected by, other factors, including difficulties collecting accounts receivable, competitive price pressures, severe weather conditions and unexpected increases in fuel or other transportation-related costs. Although these factors have not had a material adverse impact on our past operations, there can be no assurance that one or more of these factors will not adversely affect future operating results.

Increased Fuel Costs Can Lower Demand for our Products and Increase our Costs

Increased fuel costs can have a negative impact on our results of operations. The high cost of fuel can negatively impact consumer confidence and discretionary spending and thus reduce the frequency and amount spent by consumers for food prepared away from home. The high cost of fuel can also increase the price paid by us for products as well as the costs incurred by us to deliver products to our customers. These factors in turn may negatively impact our sales, margins, operating expenses and operating results.

Conditions Beyond our Control can Interrupt our Supplies and Increase our Product Costs

We obtain substantially all of our foodservice and related products from third party suppliers. For the most part, we do not have long-term contracts with our suppliers committing them to provide products to us. Although our purchasing volume can provide leverage when dealing with suppliers, suppliers may not provide the foodservice products and supplies needed by us in the quantities and at the prices requested. Because we do not control the actual production of the products we sell, we are also subject to delays caused by interruption in production and increases in product costs based on conditions outside of our control. These conditions include work slowdowns, work interruptions, strikes or other job actions by employees of suppliers, weather, crop conditions, transportation interruptions, unavailability of fuel or increases in fuel costs, competitive demands and natural disasters or other catastrophic events (including, but not limited to, the outbreak of avian flu or similar food-borne illnesses in the United States and Canada). Our inability to obtain adequate supplies of our foodservice and related products as a result of any of the foregoing factors or otherwise could mean that we could not fulfill our obligations to customers, and customers may turn to other distributors.

Taxing Authorities May Successfully Challenge our Baugh Supply Chain Cooperative Structure

The National Supply Chain project involved the creation of the BSCC which administers a consolidated product procurement program to develop, obtain and ensure consistent quality food and non-food products. BSCC is a cooperative taxed under subchapter T of the United States Internal Revenue Code. We believe that the deferred tax liabilities resulting from the business operations and legal ownership of BSCC are appropriate under the tax laws. However, if the application of the tax laws to the cooperative structure of BSCC were to be successfully challenged by any federal, state or local tax authority, we could be required to accelerate the payment of all or a portion of our income tax liabilities associated with BSCC that we otherwise had deferred until future periods, and in that event, would be liable for interest on such amounts. As of June 30, 2007, we have recorded deferred income tax liabilities of \$988,000,000 related to the BSCC supply chain distributions. This amount represents the income tax liabilities related to BSCC that were accrued, but the payment had been deferred as of June 30, 2007. In addition, if the IRS or any other taxing authority determines that all amounts since the inception of BSCC were inappropriately deferred or that BSCC should have been a taxable entity, we estimate that in addition to making a current payment for amounts previously deferred, as discussed above, we may have additional liability, representing interest that would be payable on the cumulative deferred balances ranging from \$185,000,000 to \$205,000,000, prior to federal and state income tax

benefit, as of June 30, 2007. We calculated this amount based upon the amounts deferred since the inception of BSCC applying the applicable jurisdictions interest rates in effect each period. During the third quarter of fiscal 2007, the Internal Revenue Service (IRS), in connection with its audit of our 2003 and 2004 federal income tax returns, proposed adjustments related to the taxability of BSCC. We are vigorously protesting these adjustments. We have reviewed the merits of the issues raised by the IRS and based upon such review, we have not recorded any related amount in any period. A taxing authority requiring us to accelerate the payment of these deferred tax liabilities and to pay related interest, if any, could cause us to raise additional capital through debt financing or the issuance of equity or we may have to forego or defer planned capital expenditures or share repurchases or a combination of these items.

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Because a substantial part of our growth historically has been the result of acquisitions and capital expansion, our continued growth depends, in large part, on our ability to continue this expansion. As a result, our inability to finance acquisitions and capital expenditures through borrowed funds could restrict our ability to expand. Moreover, any default under the documents governing our indebtedness could have a significant adverse effect on our cash flows, as well as the market value of our common stock. Further, our leveraged position may also increase our vulnerability to competitive pressures.

Product Liability Claims Could Materially and Adversely Impact our Business

We, like any other seller of food, face the risk of exposure to product liability claims in the event that the use of products sold by SYSCO causes injury or illness. With respect to product liability claims, we believe we have sufficient primary or excess umbrella liability insurance. However, this insurance may not continue to be available at a reasonable cost, or, if available, may not be adequate to cover all of our liabilities. We generally seek contractual indemnification and insurance coverage from parties supplying our products, but this indemnification or insurance coverage is limited, as a practical matter, to the creditworthiness of the indemnifying party and the insured limits of any insurance provided by suppliers. If SYSCO does not have adequate insurance or contractual indemnification available, product liability relating to defective products could materially reduce our net earnings and earnings per share.

Adverse Publicity Could Negatively Impact our Reputation and Reduce Earnings

Maintaining a good reputation is critical to our business, particularly to selling SYSCO Brand products. Anything that damages that reputation, whether or not justified, including adverse publicity about the quality, safety or integrity of our products, could quickly affect our revenues and profits. Reports, whether true or not, of food-borne illnesses, such as e-coli, avian flu, bovine spongiform encephalopathy, hepatitis A, trichinosis or salmonella, and injuries caused by food tampering could also severely injure our reputation. If patrons of our restaurant customers become ill from food-borne illnesses, our customers could be forced to temporarily close restaurant locations and our sales would be correspondingly decreased. In addition, instances of food-borne illnesses or food tampering or other health concerns, even those unrelated to the use of SYSCO products, can result in negative publicity about the food service distribution industry and cause our sales to decrease dramatically.

Failure to Successfully Renegotiate Union Contracts Could Result in Work Stoppages

As of June 30, 2007, approximately 9,000 employees at 54 operating companies were members of 60 different local unions associated with the International Brotherhood of Teamsters and other labor organizations. In fiscal 2008, 14 agreements covering approximately 2,300 employees will expire. Failure of the operating companies to effectively renegotiate these contracts could result in work stoppages. Although our operating subsidiaries have not experienced any significant labor disputes or work stoppages to date, and we believe they have satisfactory relationships with their unions, a work stoppage due to failure of multiple operating subsidiaries to renegotiate union contracts could have a material adverse effect on us.

A Shortage of Qualified Labor Could Negatively Impact our Business and Materially Reduce Earnings

Our operations rely heavily on our employees, particularly drivers, and any shortage of qualified labor could significantly affect our business. Our recruiting and retention efforts and efforts to increase productivity gains may not be successful and there may be a shortage of qualified drivers in future periods. Any such shortage would decrease SYSCO's ability to effectively serve our customers. Such a shortage would also likely lead to higher wages for employees and a corresponding reduction in our net earnings.

We may be Required to Pay Material Amounts Under Multi-Employer Defined Benefit Pension Plans

We contribute to several multi-employer defined benefit pension plans based on obligations arising under collective bargaining agreements covering union-represented employees. Approximately 11% of our current employees are participants in such multi-employer plans. In fiscal 2007, our total contributions to these plans were approximately \$37,296,000.

We do not directly manage these multi-employer plans, which are generally managed by boards of trustees, half of whom are appointed by the unions and the other half by other contributing employers to the plan. Based upon the information available to us from plan administrators, we believe that some of these multi-employer plans are

underfunded due partially to a decline in the value of the assets supporting these plans, a reduction in the number of actively participating members for whom employer contributions are required, and the level of benefits provided by the plans. In addition, the Pension Protection Act, enacted in August 2006, will require under-funded pension plans to improve their funding ratios within prescribed intervals based on the level of their under-funding, perhaps beginning as soon as calendar 2008. As a result, our required contributions to these plans may increase in the future.

Under current law regarding multi-employer defined benefit plans, a plan's termination, our voluntary withdrawal, or the mass withdrawal of all contributing employers from any under-funded multi-employer defined benefit plan would require us to make

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payments to the plan for our proportionate share of the multi-employer plan's unfunded vested liabilities. Based on the information available from plan administrators, we estimate that our share of withdrawal liability on all the multi-employer plans we participate in, some of which appear to be under-funded, could be as much as \$120,000,000. In addition, if a multi-employer defined benefit plan fails to satisfy certain minimum funding requirements, the IRS may impose a nondeductible excise tax of 5% on the amount of the accumulated funding deficiency for those employers contributing to the fund. Requirements to pay such increased contributions, withdrawal liability, and excise taxes could negatively impact our liquidity and results of operations.

We Must Finance and Integrate Acquired Businesses Wisely

Historically, a portion of our growth has come through acquisitions. If we are unable to integrate acquired businesses successfully or realize anticipated economic, operational and other benefits and synergies in a timely manner, our earnings per share may decrease. Integration of an acquired business may be more difficult when we acquire a business in a market in which we have limited or no expertise, or with a culture different from SYSCO's. A significant expansion of our business and operations, in terms of geography or magnitude, could strain our administrative and operational resources. Significant acquisitions may also require the issuance of material additional amounts of debt or equity, which could materially alter our debt to equity ratio, increase our interest expense and decrease earnings per share, and make it difficult for us to obtain favorable financing for other acquisitions or capital investments.

Expanding into International Markets Presents Unique Challenges and our Expansion Efforts and International Operations may not be Successful

In addition to our importing and exporting activities, our strategy includes expansion of operations into new international markets. Our ability to successfully operate in international markets may be adversely affected by local laws and customs, legal and regulatory constraints, political and economic conditions and currency regulations of the countries or regions in which we currently operate or intend to operate in the future. Risks inherent in our existing and future international operations also include, among others, the costs and difficulties of managing international operations, difficulties in identifying and gaining access to local suppliers, suffering possible adverse tax consequences, maintaining product quality and greater difficulty in enforcing intellectual property rights. Additionally, foreign currency exchange rates and fluctuations may have an impact on our future costs or on future cash flows from our international operations.

Our Preferred Stock Provides Anti-Takeover Benefits that may not be Beneficial to Stockholders

Under our Restated Certificate of Incorporation, SYSCO's Board of Directors is authorized to issue up to 1,500,000 shares of preferred stock without stockholder approval. Issuance of these shares could make it more difficult for anyone to acquire SYSCO without approval of the Board of Directors, depending on the rights and preferences of the stock issued. In addition, if anyone attempts to acquire SYSCO without approval of the Board of Directors of SYSCO, the existence of this undesignated preferred stock could allow the Board of Directors to adopt a shareholder rights plan without obtaining stockholder approval, which could result in substantial dilution to a potential acquirer. As a result, hostile takeover attempts that might result in an acquisition of SYSCO, that could otherwise have been financially beneficial to our stockholders, could be deterred.

Technology Dependence Could have a Material Negative Impact on our Business

Our ability to decrease costs and increase profits, as well as our ability to serve customers most effectively, depends on the reliability of our technology network. We use software and other technology systems to load trucks in the most efficient manner to optimize the use of storage space and minimize the time spent at each stop. Any disruption to these computer systems could adversely impact our customer service, decrease the volume of our business and result in increased costs. While SYSCO has invested and continues to invest in technology security initiatives and disaster recovery plans, these measures cannot fully insulate us from technology disruption that could result in adverse effects on operations and profits.

Item 1B. Unresolved Staff Comments

None.

Table of Contents**Item 2. Properties**

The table below shows the number of distribution facilities occupied by SYSCO in each state or province and the aggregate cubic footage devoted to cold and dry storage as of June 30, 2007.

Location	Number of Facilities	Cold Storage (Thousands Cubic Feet)	Dry Storage (Thousands Cubic Feet)	Segments Served*
Alabama	2	5,100	6,049	BL
Alaska	1	1,067	645	BL
Arizona	1	2,818	2,588	BL
Arkansas	2	2,660	2,611	BL, O
California	17	28,886	29,733	BL, S, O
Colorado	4	6,926	5,390	BL, S, O
Connecticut	2	5,068	3,851	BL, O
District of Columbia	1	335	30	O
Florida	15	29,827	23,992	BL, S, O
Georgia	6	5,434	13,190	BL, S, O
Hawaii	1		258	O
Idaho	2	2,032	2,202	BL
Illinois	6	5,981	10,345	BL, S, O
Indiana	2	2,843	2,387	BL, O
Iowa	1	2,318	2,373	BL
Kansas	1	4,424	4,274	BL
Kentucky	1	2,286	2,647	BL
Louisiana	1	3,282	2,605	BL
Maine	1	1,494	1,895	BL
Maryland	3	8,383	7,770	BL, O
Massachusetts	2	5,188	6,009	BL, S
Michigan	4	6,504	8,468	BL, S, O
Minnesota	2	4,415	3,772	BL
Mississippi	1	2,071	2,073	BL
Missouri	2	2,242	2,316	BL, S
Montana	1	3,269	2,556	BL
Nebraska	1	1,721	2,130	BL
Nevada	3	6,010	3,677	BL, O
New Jersey	4	4,144	10,400	BL, O
New Mexico	1	3,018	2,696	BL
New York	3	7,522	8,762	BL
North Carolina	7	8,731	12,674	BL, S, O
North Dakota	1	830	1,893	BL
Ohio	10	10,368	14,313	BL, S, O
Oklahoma	4	3,788	3,579	BL, S, O
Oregon	3	4,023	4,063	BL, S, O
Pennsylvania	4	6,749	7,586	BL, S
South Carolina	1	4,541	2,928	BL
Tennessee	4	8,810	7,174	BL, O
Texas	18	23,045	23,704	BL, S, O

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Utah	1	3,609	3,208	BL
Virginia	3	13,252	9,786	BL
Washington	1	4,025	2,751	BL
Wisconsin	2	7,261	6,155	BL
Alberta, Canada	2	4,098	3,550	BL
British Columbia, Canada	6	4,595	4,279	BL, O
Manitoba, Canada	1	1,135	860	BL
New Brunswick, Canada	2	1,124	1,430	BL
Newfoundland, Canada	1	550	550	BL
Nova Scotia, Canada	1	746	995	BL
Ontario, Canada	9	11,734	10,119	BL, O
Quebec, Canada	1	716	1,209	BL
Saskatchewan, Canada	1	1,271	825	BL
Total	177	292,269	301,325	

* Segments served include Broadline (BL), SYGMA (S) and Other (O).

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We own approximately 480,861,000 cubic feet of our distribution facilities and self-serve centers (or 81.0% of the total cubic feet), and the remainder is occupied under leases expiring at various dates from fiscal 2008 to fiscal 2041, exclusive of renewal options. Certain of the facilities owned by the company are either subject to mortgage indebtedness or industrial revenue bond financing arrangements totaling \$17,727,000 as of June 30, 2007. Such mortgage indebtedness and industrial revenue bond financing arrangements mature at various dates through fiscal 2026.

We own our approximately 325,000 square foot headquarters office complex in Houston, Texas and lease approximately 150,000 square feet of additional office space in Houston, Texas. We began the expansion of our headquarters office complex in fiscal 2006, the first phase of which was completed in the first quarter of fiscal 2007. Upon completion of the second phase of the expansion in the second half of fiscal 2008, our headquarters office complex will be approximately 625,000 owned square feet.

Facilities in Edmonton, Alberta; Danville, Illinois; Grand Rapids, Michigan; Las Vegas, Nevada; and Peterborough, Ontario (which in the aggregate accounted for approximately 3.9% of fiscal 2007 sales) are operating near capacity and we are currently constructing expansions or replacements for these distribution facilities. We are also constructing new distribution facilities in Knoxville, Tennessee and Longview, Texas. We are constructing our second redistribution facility in Alachua, Florida and expect it to be operational in fiscal 2008. We have also purchased the site of its third redistribution facility to be built in Hamlet, Indiana.

As of June 30, 2007, our fleet of approximately 9,300 delivery vehicles consisted of tractor and trailer combinations, vans and panel trucks, most of which are either wholly or partially refrigerated for the transportation of frozen or perishable foods. We own approximately 87% of these vehicles and lease the remainder.

Item 3. Legal Proceedings

We are engaged in various legal proceedings which have arisen in the normal course of business but have not been fully adjudicated. These proceedings, in our opinion, will not have a material adverse effect upon our consolidated financial position or results of operations when ultimately concluded.

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

None.

PART II**Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Repurchases of Equity Securities**

The principal market for SYSCO's common stock (SYY) is the New York Stock Exchange. The table below sets forth the high and low sales prices per share for our common stock as reported on the New York Stock Exchange Composite Tape and the cash dividends declared for the periods indicated.

	Common Stock Prices		Dividends Declared Per Share
	High	Low	
Fiscal 2006:			
First Quarter	\$37.30	\$30.96	\$0.15
Second Quarter	33.59	29.98	0.17
Third Quarter	32.72	29.11	0.17
Fourth Quarter	32.15	29.11	0.17
Fiscal 2007:			
First Quarter	\$34.15	\$26.50	\$0.17
Second Quarter	37.04	32.35	0.19
Third Quarter	36.74	31.34	0.19
Fourth Quarter	34.95	31.64	0.19

The number of record owners of SYSCO's common stock as of August 15, 2007 was 13,469.

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We made the following share repurchases during the fourth quarter of fiscal 2007:

ISSUER PURCHASES OF EQUITY SECURITIES

Period	(a) Total Number of Shares Purchased(1)	(b) Average Price Paid Per Share	(c) Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	(d) Maximum Number of Shares That May Yet be Purchased Under the Plans or Programs
Month #1 April 1 April 28	10,280	\$ 34.13		9,800,200
Month #2 April 29 May 26	1,990,617	33.23	1,984,300	7,815,900
Month #3 May 27 June 30	4,766,070	33.04	4,708,200	3,107,700
Total	6,766,967	\$ 33.10	6,692,500	3,107,700

(1) The total number of shares purchased includes 10,280, 6,317 and 57,870 shares tendered by individuals in connection with stock option exercises in Month #1, Month #2 and Month #3, respectively.

On November 10, 2005, we announced that the Board of Directors approved the repurchase of 20,000,000 shares. Pursuant to these repurchase programs, shares may be acquired in the open market or in privately negotiated transactions at the company's discretion, subject to market conditions and other factors.

In July 2004, the Board of Directors authorized us to enter into agreements from time to time to extend our ongoing repurchase program to include repurchases during company announced blackout periods of such securities in compliance with Rule 10b5-1 promulgated under the Exchange Act.

On June 11, 2007, we entered into a stock purchase plan with Wachovia Securities to purchase up to 4,150,000 shares of SYSCO common stock as authorized under the November 2005 repurchase program pursuant to Rules 10b5-1 and 10b-18 under the Exchange Act. A total of 4,150,000 shares were purchased between June 11, 2007

and August 14, 2007, including during company blackout periods. By its terms, the agreement terminated on August 14, 2007.

As noted in the table above, there were 3,107,700 shares remaining available for repurchase as of June 30, 2007. On July 18, 2007, we announced that the Board of Directors approved the repurchase of an additional 20,000,000 shares. From July 1, 2007 through August 15, 2007, an additional 3,157,700 shares were purchased. As of August 15, 2007, there were 19,950,000 shares remaining available for repurchase under the July 2007 repurchase programs.

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Table of Contents**Item 6. Selected Financial Data**

	Fiscal Year				
	2007	2006(1)	2005	2004 (53 Weeks)	2003
	(In thousands except for share data)				
Sales	\$ 35,042,075	\$ 32,628,438	\$ 30,281,914	\$ 29,335,403	\$ 26,140,337
Earnings before income taxes	1,621,215	1,394,946	1,525,436	1,475,144	1,260,387
Income taxes	620,139	548,906	563,979	567,930	482,099