

**SYSCO CORP**  
Form 10-Q/A  
May 07, 2007

**Table of Contents**

**UNITED STATES SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549  
FORM 10-Q/A  
Amendment No. 1**

**(Mark One)**

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

**For the quarterly period ended December 30, 2006**

**OR**

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

**For the transition period from \_\_\_\_\_ to \_\_\_\_\_**

**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)

74-1648137  
(IRS employer  
identification number)

1390 Enclave Parkway  
Houston, Texas 77077-2099  
(Address of principal executive offices)  
(Zip code)

Registrant's telephone number, including area code: (281) 584-1390

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 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

616,987,398 shares of common stock were outstanding as of January 27, 2007.

**TABLE OF CONTENTS**

	<b>Page No.</b>
<u>Amendment No. 1 Explanatory Note</u>	1
<b><u>Part I. Financial Information</u></b>	
<u>Item 1. Financial Statements</u>	2
<u>Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations</u>	23
<u>Item 3. Quantitative and Qualitative Disclosures about Market Risk</u>	37
<u>Item 4. Controls and Procedures</u>	37
<b><u>Part II. Other Information</u></b>	
<u>Item 6. Exhibits</u>	38
<u>Signatures</u>	40
<u>Report from Ernst &amp; Young LLP</u>	
<u>Acknowledgment Letter from Ernst &amp; Young LLP</u>	
<u>Certification of CEO Pursuant to Section 302</u>	
<u>Certification of CFO Pursuant to Section 302</u>	
<u>Certification of CEO Pursuant to Section 906</u>	
<u>Certification of CFO Pursuant to Section 906</u>	

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**Table of Contents**

1

**Amendment No. 1 Explanatory Note**

On May 3, 2007, SYSCO concluded, after review of our interpretation of FASB Staff Position No. FTB 85-4-1, Accounting for Life Settlement Contracts by Third-Party Investors (FSP FTB 85-4-1) and discussions with our independent auditors, that we should restate our previously filed financial statements for the first and second quarters of fiscal 2007 to correct the accounting for our corporate-owned life insurance policies. We became aware of the misapplication of FSP FTB 85-4-1 in connection with our periodic review and evaluation of the corporate-owned life insurance policies. In the first quarter of fiscal 2007, we adopted FSP FTB 85-4-1 using the investment method. Our adoption resulted in a cumulative-effect charge to retained earnings of \$39,735,000 to recognize the impact of adjusting the existing corporate-owned life insurance policies to historical cost, and we ceased to recognize the changes in the cash surrender value of these policies. We now have determined that our corporate-owned life insurance policies are not life settlement contracts as defined by FSP FTB 85-4-1 and therefore this accounting standard is not applicable to us. Accordingly, our Form 10-Q filings for the first and second quarter of fiscal 2007 are being restated to accurately account for our corporate-owned life insurance policies. This restatement results in the reversal of the cumulative effective of accounting change of \$39,735,000 originally recorded by the company in the first quarter of fiscal 2007 and a decrease in operating expenses by \$11,247,000 and \$9,852,000 to record the change in cash surrender value for the 26 week and 13 week periods ended December 30, 2006, respectively. This Amendment No. 1 on Form 10-Q/A, which amends and restates our Part I and Item 6 of Part II of Form 10-Q for the quarter ended December 30, 2006, initially filed with the Securities and Exchange Commission (SEC) on February 8, 2007, is being filed to reflect the restatement of the consolidated financial statements and other financial and related information of SYSCO, including Management's Discussion and Analysis of Financial Condition and Results of Operations, as presented herein. This Amendment reflects the accounting corrections discussed above. All other information in the amended Items, as well as Items 1, 1A and 2-5, is unchanged and reflects the disclosures made at the time of the original filing. In addition, currently-dated certifications from our Chief Executive Officer and Chief Financial Officer have been included as exhibits to this Amendment No. 1.

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**Table of Contents**

2

**PART I FINANCIAL INFORMATION**Item 1. *Financial Statements*

SYSCO CORPORATION and its Consolidated Subsidiaries

**CONSOLIDATED BALANCE SHEETS**

(In Thousands Except for Share Data)

	Dec. 30, 2006 (unaudited) (restated*)	July 1, 2006	Dec. 31, 2005 (unaudited)
<b>ASSETS</b>			
Current assets			
Cash	\$ 185,862	\$ 201,897	\$ 253,938
Accounts and notes receivable, less allowances of \$50,593, \$29,100 and \$53,229	2,551,114	2,483,720	2,360,132
Inventories	1,717,978	1,608,233	1,672,908
Prepaid expenses	69,785	59,154	65,273
Prepaid income taxes		46,690	
 Total current assets	 4,524,739	 4,399,694	 4,352,251
Plant and equipment at cost, less depreciation	2,593,874	2,464,900	2,344,423
Other assets			
Goodwill	1,324,014	1,302,591	1,263,609
Intangibles, less amortization	92,759	95,651	83,375
Restricted cash	112,453	102,274	102,723
Prepaid pension cost	412,310	388,650	428,005
Other assets	257,231	238,265	235,801
 Total other assets	 2,198,767	 2,127,431	 2,113,513
 Total assets	 \$ 9,317,380	 \$ 8,992,025	 \$ 8,810,187
 <b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
Current liabilities			
Notes payable	\$ 10,040	\$ 29,300	\$ 31,814
Accounts payable	1,888,178	1,891,357	1,813,247
Accrued expenses	745,892	745,781	689,048
Income taxes	282,208		189,593
Deferred taxes	211,832	453,700	208,224
Current maturities of long-term debt	105,077	106,265	209,247
 Total current liabilities	 3,243,227	 3,226,403	 3,141,173
Other liabilities			
Long-term debt	1,755,982	1,627,127	1,827,586
Deferred taxes	700,182	723,349	727,084

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Other long-term liabilities	381,342	362,862	403,087
Total other liabilities	2,837,506	2,713,338	2,957,757
Contingencies			
Shareholders' equity			
Preferred stock, par value \$1 per share			
Authorized 1,500,000 shares, issued none			
Common stock, par value \$1 per share			
Authorized 2,000,000,000 shares, issued 765,174,900 shares	765,175	765,175	765,175
Paid-in capital	589,380	525,684	470,274
Retained earnings	5,253,486	4,999,440	4,766,135
Other comprehensive income	62,143	84,618	21,980
	6,670,184	6,374,917	6,023,564
Less cost of treasury stock, 147,698,956, 146,279,320 and 146,656,748 shares	3,433,537	3,322,633	3,312,307
Total shareholders' equity	3,236,647	3,052,284	2,711,257
Total liabilities and shareholders' equity	\$ 9,317,380	\$ 8,992,025	\$ 8,810,187

Note: The July 1, 2006 balance sheet has been derived from the audited financial statements at that date.

\* See Note 1  
Restatement and  
Basis of  
Presentation

See Notes to Consolidated Financial Statements

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**Table of Contents**

3

SYSCO CORPORATION and its Consolidated Subsidiaries  
 CONSOLIDATED RESULTS OF OPERATIONS (unaudited)  
 (In Thousands Except for Share and Per Share Data)

	26-Week Period Ended		13-Week Period Ended	
	Dec. 30, 2006 (*restated)	Dec. 31, 2005	Dec. 30, 2006 (*restated)	Dec. 31, 2005
Sales	\$ 17,240,820	\$ 15,981,545	\$ 8,568,748	\$ 7,971,061
Costs and expenses				
Cost of sales	13,918,115	12,915,546	6,915,259	6,434,753
Operating expenses	2,507,849	2,348,125	1,230,967	1,171,469
Interest expense	53,772	51,473	28,006	29,227
Other, net	(12,413)	(5,335)	(3,375)	(2,220)
Total costs and expenses	16,467,323	15,309,809	8,170,857	7,633,229
Earnings before income taxes and cumulative effect of accounting change	773,497	671,736	397,891	337,832
Income taxes	296,811	268,344	151,353	133,650
Earnings before cumulative effect of accounting change	476,686	403,392	246,538	204,182
Cumulative effect of accounting change		9,285		
Net earnings	\$ 476,686	\$ 412,677	\$ 246,538	\$ 204,182
Earnings before cumulative effect of accounting change:				
Basic earnings per share	\$ 0.77	\$ 0.65	\$ 0.40	\$ 0.33
Diluted earnings per share	0.76	0.64	0.39	0.33
Net earnings:				
Basic earnings per share	0.77	0.66	0.40	0.33
Diluted earnings per share	0.76	0.65	0.39	0.33
Average shares outstanding	619,642,963	623,470,638	619,158,876	620,137,592
Diluted shares outstanding	626,777,041	631,396,186	628,429,841	627,147,814
Dividends declared per common share	\$ 0.36	\$ 0.32	\$ 0.19	\$ 0.17

\* See Note 1  
 Restatement and  
 Basis of  
 Presentation

See Notes to Consolidated Financial Statements

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**Table of Contents**

4

SYSCO CORPORATION and its Consolidated Subsidiaries  
 CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (unaudited)  
 (In Thousands)

	26-Week Period Ended		13-Week Period Ended	
	Dec. 30, 2006 (*restated)	Dec. 31, 2005	Dec. 30, 2006 (*restated)	Dec. 31, 2005
Net earnings	\$ 476,686	\$ 412,677	\$ 246,538	\$ 204,182
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	(22,689)	28,474	(22,135)	(37)
Change in fair value of forward-starting interest rate swap		7,064		
Amortization of cash flow hedge	214	119	107	107
Total other comprehensive income (loss)	(22,475)	35,657	(22,028)	70
Comprehensive income	\$ 454,211	\$ 448,334	\$ 224,510	\$ 204,252

\* See Note 1  
 Restatement and  
 Basis of  
 Presentation  
 See Notes to Consolidated Financial Statements

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**Table of Contents**

5

SYSCO CORPORATION and its Consolidated Subsidiaries  
 CONSOLIDATED CASH FLOWS (unaudited)  
 (In Thousands)

	26-Week Period Ended	
	Dec. 30, 2006 (*restated)	Dec. 31, 2005
Operating activities:		
Net earnings	\$ 476,686	\$ 412,677
Adjustments to reconcile net earnings to cash provided by operating activities:		
Cumulative effect of accounting change		(9,285)
Share-based compensation expense	49,916	74,168
Depreciation and amortization	178,871	169,558
Deferred tax provision	271,473	261,766
Provision for losses on receivables	15,417	16,654
(Gain) loss on sale of assets	(5,326)	380
Additional investment in certain assets and liabilities, net of effect of businesses acquired:		
(Increase) in receivables	(81,371)	(57,632)
(Increase) in inventories	(113,283)	(193,578)
(Increase) in prepaid expenses	(10,832)	(4,716)
Increase (decrease) in accounts payable	10,040	(8,753)
(Decrease) in accrued expenses	(21,205)	(30,287)
(Decrease) in accrued income taxes	(195,621)	(311,809)
(Increase) in other assets	(24,841)	(14,046)
(Decrease) increase in other long-term liabilities and prepaid pension cost, net	(5,180)	9,534
Excess tax benefits from share-based compensation arrangements	(4,564)	(3,080)
Net cash provided by operating activities	540,180	311,551
Investing activities:		
Additions to plant and equipment	(314,497)	(232,559)
Proceeds from sales of plant and equipment	11,555	12,211
Acquisition of businesses, net of cash acquired	(44,618)	(54,776)
Increase in restricted cash	(12,679)	(992)
Net cash used for investing activities	(360,239)	(276,116)
Financing activities:		
Bank and commercial paper borrowings (repayments ), net	112,169	342,024
Other debt borrowings	3,603	499,987
Other debt repayments	(6,197)	(206,698)
Debt issuance costs		(3,955)
Cash paid for termination of interest rate swap		(21,196)

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Common stock reissued from treasury	127,522	76,215
Treasury stock purchases	(225,177)	(473,181)
Dividends paid	(210,528)	(188,159)
Excess tax benefits from share-based compensation arrangements	4,564	3,080
Net cash (used for) provided by financing activities	(194,044)	28,117
Effect of exchange rates on cash	(1,932)	(1,292)
Net (decrease) increase in cash	(16,035)	62,260
Cash at beginning of period	201,897	191,678
Cash at end of period	\$ 185,862	\$ 253,938
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	\$ 54,092	\$ 47,664
Income taxes	220,406	313,493

\* See Note 1  
Restatement and  
Basis of  
Presentation

See Notes to Consolidated Financial Statements

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**Table of Contents**

6

SYSCO CORPORATION and its Consolidated Subsidiaries  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (unaudited)**1. Restatement and Basis of Presentation**

The consolidated financial statements have been prepared by the company, without audit, with the exception of the July 1, 2006 consolidated balance sheet which was taken from the audited financial statements included in the company's Fiscal 2006 Annual Report on Form 10-K. The financial statements include consolidated balance sheets, consolidated results of operations, consolidated statements of comprehensive income and consolidated cash flows. Certain amounts in the prior periods presented have been reclassified to conform to the fiscal 2007 presentation. In the opinion of management, all adjustments, which consist of normal recurring adjustments, necessary to present fairly the financial position, results of operations, comprehensive income and cash flows for all periods presented have been made.

These financial statements should be read in conjunction with the audited financial statements and notes thereto included in the company's Fiscal 2006 Annual Report on Form 10-K.

On May 3, 2007, the company concluded, after review of its interpretation of FASB Staff Position No. FTB 85-4-1, Accounting for Life Settlement Contracts by Third-Party Investors (FSP FTB 85-4-1) and discussions with its independent auditors, that it should restate its previously filed financial statements for the first and second quarters in fiscal 2007 to correct the accounting for corporate-owned life insurance policies. The company became aware of the misapplication of FSP FTB 85-4-1 in connection with its periodic review and evaluation of the corporate-owned life insurance policies. In the first quarter of fiscal 2007, SYSCO adopted FSP FTB 85-4-1 using the investment method and the company ceased to recognize fair value adjustments for increases or decreases in cash surrender values of these policies. The company's adoption resulted in a cumulative-effect adjustment to retained earnings of \$39,735,000 to recognize the impact of adjusting the existing corporate-owned life insurance policies to historical cost. SYSCO has now determined that its corporate-owned life insurance policies are not life settlement contracts as defined by FSP FTB 85-4-1 and therefore this accounting standard is not applicable to SYSCO. The company is restating its previously issued financial statements to reverse the cumulative effective of accounting change of \$39,735,000 relating to the adoption of FSP FTB 85-4-1 originally recorded by the company in the first quarter of fiscal 2007 and to decrease operating expenses by \$11,247,000 and \$9,852,000 to record the change in cash surrender value for the 26 week and 13 week periods ended December 30, 2006, respectively. These corrections increased retained earnings by \$50,982,000, comprised of a reversal of \$39,735,000 in expense and a gain of \$11,247,000 related to the cash surrender value of the life insurance policies, and increase other assets by \$50,982,000. For the actual impact of these financial statement adjustments to the financial statements for the 26 week period and 13 week period ended December 30, 2006, see the tables below.

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**Table of Contents**

7

Consolidated Balance Sheet (unaudited)  
As of December 30, 2006  
(In Thousands Except For Share Data)

	As Previously Reported	Adjustment	As Restated
<b>ASSETS</b>			
Current assets			
Cash	\$ 185,862	\$	\$ 185,862
Accounts and notes receivable, net	2,551,114		2,551,114
Inventories	1,717,978		1,717,978
Prepaid expenses	69,785		69,785
Prepaid income taxes			
Total current assets	4,524,739		4,524,739
Plant and equipment at cost, less depreciation	2,593,874		2,593,874
Other assets			
Goodwill	1,324,014		1,324,014
Intangibles, less amortization	92,759		92,759
Restricted cash	112,453		112,453
Prepaid pension cost	412,310		412,310
Other assets	206,249	50,982	257,231
Total other assets	2,147,785	50,982	2,198,767
Total assets	\$ 9,266,398	\$ 50,982	\$ 9,317,380
<b>LIABILITIES AND SHAREHOLDERS EQUITY</b>			
Current liabilities			
Notes payable	\$ 10,040	\$	\$ 10,040
Accounts payable	1,888,178		1,888,178
Accrued expenses	745,892		745,892
Accrued income taxes	282,208		282,208
Deferred taxes	211,832		211,832
Current maturities of long-term debt	105,077		105,077
Total current liabilities	3,243,227		3,243,227
Other liabilities			
Long-term debt	1,755,982		1,755,982
Deferred taxes	700,182		700,182
Other long-term liabilities	381,342		381,342
Total other liabilities	2,837,506		2,837,506
Contingencies			
Shareholders equity			

Preferred stock			
Common stock	765,175		765,175
Paid-in capital	589,380		589,380
Retained earnings	5,202,504	50,982	5,253,486
Other comprehensive income	62,143		62,143
	6,619,202	50,982	6,670,184
Less cost of treasury stock	3,433,537		3,433,537
Total shareholders' equity	3,185,665	50,982	3,236,647
Total liabilities and shareholders' equity	\$ 9,266,398	\$ 50,982	\$ 9,317,380

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**Table of Contents**

8

Consolidated Results of Operations (unaudited)  
 26-Week Period Ended December 30, 2006  
 (In Thousands Except for Share and Per Share Data)

	As Previously Reported	Adjustment	As Restated
Sales	\$ 17,240,820	\$	\$ 17,240,820
Costs and expenses			
Cost of sales	13,918,115		13,918,115
Operating expenses	2,519,096	(11,247)	2,507,849
Interest expense	53,772		53,772
Other, net	(12,413)		(12,413)
Total costs and expenses	16,478,570	(11,247)	16,467,323
Earnings before income taxes and cumulative effect of accounting change	762,250	11,247	773,497
Income taxes	296,811		296,811
Earnings before cumulative effect of accounting change	465,439	11,247	476,686
Cumulative effect of accounting change	(39,735)	39,735	