SYSCO CORP
Form 10-Q
May 06, 2008

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q

(Mark One)

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

For the quarterly period ended March 29, 2008

OR

o **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 þ No o

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

Large accelerated filer þ	Accelerated filer o	Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act.)

Yes o No þ

600,636,962 shares of the registrant s common stock were outstanding as of April 26, 2008.

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PART I FINANCIAL INFORMATION

Item 1. *Financial Statements*

SYSCO CORPORATION and its Consolidated Subsidiaries
CONSOLIDATED BALANCE SHEETS
(In Thousands, Except for Share Data)

	Mar. 29, 2008 (unaudited)	June 30, 2007	Mar. 31, 2007 (unaudited)
ASSETS			
Current assets			
Cash	$ 243,919	$ 207,872	$ 180,943
Accounts and notes receivable, less allowances of $65,755, $31,841 and $60,105	2,737,464	2,610,885	2,634,273
Inventories	1,836,683	1,714,187	1,693,084
Prepaid expenses and other current assets	62,432	123,284	66,939
Prepaid income taxes		19,318	
Total current assets	4,880,498	4,675,546	4,575,239
Plant and equipment at cost, less depreciation	2,857,230	2,721,233	2,649,708
Other assets			
Goodwill	1,406,700	1,355,313	1,329,745
Intangibles, less amortization	90,242	91,366	89,977
Restricted cash	92,135	101,929	101,105
Prepaid pension cost	416,151	352,390	423,607
Other assets	218,029	221,154	257,940
Total other assets	2,223,257	2,122,152	2,202,374
Total assets	$ 9,960,985	$ 9,518,931	$ 9,427,321
LIABILITIES AND SHAREHOLDERS EQUITY			
Current liabilities			
Notes payable	$	$ 18,900	$ 10,500
Accounts payable	2,033,198	1,981,190	1,982,126
Accrued expenses	846,989	922,582	810,216
Income taxes	159,628		119,919
Deferred taxes	385,878	488,849	357,629
Current maturities of long-term debt	4,504	3,568	104,882
Total current liabilities	3,430,197	3,415,089	3,385,272
Other liabilities			
Long-term debt	2,040,546	1,758,227	1,633,091
Deferred taxes	554,137	626,695	688,239
Other long-term liabilities	655,158	440,520	385,198

Total other liabilities	3,249,841	2,825,442	2,706,528
Commitments and 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	697,970	637,154	618,087
Retained earnings	5,839,698	5,544,078	5,357,045
Accumulated other comprehensive income (loss)	47,422	(4,061)	67,441
	7,350,265	6,942,346	6,807,748
Less cost of treasury stock, 165,088,829, 153,334,523 and 148,014,133 shares	4,069,318	3,663,946	3,472,227
Total shareholders equity	3,280,947	3,278,400	3,335,521
Total liabilities and shareholders equity	$ 9,960,985	$ 9,518,931	$ 9,427,321

Note: The June 30, 2007 balance sheet has been derived from the audited financial statements at that date.
See Notes to Consolidated Financial Statements.

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

	39-Week Period Ended		13-Week Period Ended	
	Mar. 29, 2008	Mar. 31, 2007	Mar. 29, 2008	Mar. 31, 2007
Sales	$ 27,791,906	$ 25,813,781	$ 9,146,557	$ 8,572,961
Cost of sales	22,498,463	20,856,982	7,412,036	6,938,867
Gross margin	5,293,443	4,956,799	1,734,521	1,634,094
Operating expenses	3,972,154	3,757,800	1,316,877	1,249,951
Operating income	1,321,289	1,198,999	417,644	384,143
Interest expense	84,030	79,472	28,744	25,700
Other income, net	(18,660)	(14,949)	(7,285)	(2,536)
Earnings before income taxes	1,255,919	1,134,476	396,185	360,979
Income taxes	483,881	436,791	155,284	139,980
Net earnings	$ 772,038	$ 697,685	$ 240,901	$ 220,999
Net earnings:				
Basic earnings per share	$ 1.27	$ 1.13	$ 0.40	$ 0.36
Diluted earnings per share	1.26	1.11	0.40	0.35
Average shares outstanding	607,380,306	618,988,223	603,170,150	617,678,739
Diluted shares outstanding	612,241,790	626,507,744	605,773,862	625,750,925
Dividends declared per common share	$ 0.63	$ 0.55	$ 0.22	$ 0.19

See Notes to Consolidated Financial Statements.

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

	39-Week Period Ended		13-Week Period Ended	
	Mar. 29, 2008	Mar. 31, 2007	Mar. 29, 2008	Mar. 31, 2007
Net earnings	$ 772,038	$ 697,685	$ 240,901	$ 220,999
Other comprehensive income, net of tax:				
Foreign currency translation adjustment	23,977	(17,497)	(25,919)	5,191
Amortization of cash flow hedge	320	320	107	107
Amortization of unrecognized prior service cost	2,835		946	
Amortization of unrecognized actuarial losses (gains), net	1,502		500	
Amortization of unrecognized transition obligation	69		23	
Total other comprehensive income (loss)	28,703	(17,177)	(24,343)	5,298
Comprehensive income	$ 800,741	$ 680,508	$ 216,558	$ 226,297

See Notes to Consolidated Financial Statements.

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

	39-Week Period Ended	
	Mar. 29, 2008	Mar. 31, 2007
Cash flows from operating activities:		
Net earnings	$ 772,038	$ 697,685
Adjustments to reconcile net earnings to cash provided by operating activities:		
Share-based compensation expense	61,154	75,749
Depreciation and amortization	275,747	270,236
Deferred tax provision	450,569	405,228
Provision for losses on receivables	25,926	23,251
Gain on sale of assets	(2,496)	(5,791)
Additional investment in certain assets and liabilities, net of effect of businesses acquired:		
(Increase) in receivables	(138,425)	(170,145)
(Increase) in inventories	(112,867)	(86,722)
Decrease (increase) in prepaid expenses and other current assets	61,230	(7,933)
Increase in accounts payable	41,082	101,707
(Decrease) increase in accrued expenses	(81,931)	47,928
(Decrease) in accrued income taxes	(362,878)	(352,399)
Decrease (increase) in other assets	4,427	(26,976)
Increase (decrease) in other long-term liabilities and prepaid pension cost, net	2,398	(12,621)
Excess tax benefits from share-based compensation arrangements	(3,352)	(7,032)
Net cash provided by operating activities	992,622	952,165
Cash flows from investing activities:		
Additions to plant and equipment	(392,706)	(457,174)
Proceeds from sales of plant and equipment	11,428	14,119
Acquisition of businesses, net of cash acquired	(50,464)	(48,534)
Decrease (increase) in restricted cash	2,794	(1,331)
Net cash used for investing activities	(428,948)	(492,920)
Cash flows from financing activities:		
Bank and commercial paper borrowings (repayments), net	(486,122)	(10,235)
Other debt borrowings	755,892	4,480
Other debt repayments	(5,497)	(7,418)
Debt issuance costs	(4,192)	(7)
Common stock reissued from treasury	102,438	184,950
Treasury stock purchases	(529,179)	(329,342)

Dividends paid	(365,333)	(328,029)
Excess tax benefits from share-based compensation arrangements	3,352	7,032
Net cash used for financing activities	(528,641)	(478,569)
Effect of exchange rates on cash	1,014	(1,630)
Net increase (decrease) in cash	36,047	(20,954)
Cash at beginning of period	207,872	201,897
Cash at end of period	$ 243,919	$ 180,943
Supplemental disclosures of cash flow information:		
Cash paid during the period for:		
Interest	$ 88,514	$ 86,733
Income taxes	386,570	383,076

See Notes to Consolidated Financial Statements.

SYSCO CORPORATION and its Consolidated Subsidiaries
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

1. Basis of Presentation

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

The consolidated financial statements have been prepared by the company, without audit, with the exception of the June 30, 2007 consolidated balance sheet which was taken from the audited financial statements included in the company s Fiscal 2007 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 2008 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 2007 Annual Report on Form 10-K.

A review of the financial information herein has been made by Ernst & Young LLP, independent auditors, in accordance with established professional standards and procedures for such a review. A report from Ernst & Young LLP concerning their review is included as Exhibit 15.1 to this Form 10-Q.

2. Changes in Accounting

SFAS 158

As of June 30, 2007, SYSCO early adopted the measurement date provision of FASB Statement of Financial Accounting Standards (SFAS) No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158). The measurement date provision requires an employer to measure a plan s assets and benefit obligations as of the end of the employer s fiscal year. As a result, beginning in fiscal 2008, the measurement date for SYSCO s defined benefit pension and other postretirement plans corresponds with fiscal year-end rather than the May 31st measurement date previously used. The company performed measurements as of May 31, 2007 and June 30, 2007 of the plan assets and benefit obligations. SYSCO recorded a charge to beginning retained earnings on July 1, 2007 of $3,572,000, net of tax, for the impact of the difference in our pension expense between the two measurement dates. The company also recorded a benefit to beginning accumulated other comprehensive income (loss) on July 1, 2007 of $22,780,000, net of tax, for the impact of the difference in the recognition provision between the two measurement dates.

FIN 48

Effective July 1, 2007, SYSCO adopted FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an Interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in accordance with SFAS No. 109, Accounting for Income Taxes (SFAS 109). FIN 48 clarifies the application of SFAS 109 by defining criteria that an individual tax position must meet for any part of the benefit of that position to be recognized in the financial statements. Additionally, FIN 48 provides guidance on the measurement, derecognition, classification and disclosure of tax positions, along with accounting for the related interest and penalties. The impact of adopting this standard is discussed in Note 9, Income Taxes.

3. New Accounting Standards

SFAS 141(R)

In December 2007, the FASB issued SFAS No. 141(R), Business Combinations (SFAS 141(R)), which establishes principles and requirements for how an acquirer recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any noncontrolling interest in a business combination. This statement also establishes recognition and measurement principles for the goodwill acquired in a business combination and disclosure requirements to enable financial statement users to evaluate the nature and financial effects of the business combination. SYSCO will apply this statement primarily for business combinations beginning in fiscal 2010. Earlier application of the standard is prohibited.

FSP 157-2

In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements (SFAS 157), which establishes a common definition for fair value under generally accepted accounting principles, establishes a framework for measuring fair value and expands disclosure requirements about such fair value measurements. In February 2008, the FASB issued FASB Staff Position 157-2, Effective Date of FASB Statement No. 157 (FSP 157-2), which partially defers the effective date of SFAS No. 157 for one year for non-financial assets and liabilities that are recognized or disclosed at fair value in the financial statements on a non-recurring basis. Consequently, SFAS 157 will be effective for SYSCO in fiscal 2009 for financial assets and liabilities carried at fair value and non-financial assets and liabilities that are recognized or disclosed at fair value on a recurring basis. As a result of the deferral, SFAS 157 will be effective in fiscal 2010 for non-recurring, non-financial assets and liabilities that are recognized or disclosed at fair value. The company is continuing to evaluate the impact of the provisions of SFAS 157.

SFAS 161

In March 2008, the FASB issued SFAS No. 161, Disclosures about Derivative Instruments and Hedging Activities, an amendment of FASB Statement No. 133 (SFAS 161). SFAS 161 requires enhanced disclosures about an entity s derivative and hedging activities and thereby improves the transparency of financial reporting. This Statement will be effective for SYSCO s financial statements beginning with the third quarter of fiscal 2009. The company is currently evaluating the impact the adoption of SFAS 161 may have on its financial statement disclosures.

4. Restricted Cash

SYSCO is required by its insurers to collateralize a part of the self-insured portion of its workers compensation and liability claims. SYSCO has chosen to satisfy these collateral requirements by depositing funds in insurance trusts or by issuing letters of credit.

In addition, for certain acquisitions, SYSCO has placed funds into escrow to be disbursed to the sellers in the event that specified operating results are attained or contingencies are resolved. Escrowed funds in the amount of $7,000,000 related to certain acquisitions were released to sellers of acquired businesses during the first 39 weeks of fiscal 2008. In addition, escrowed funds in the amount of $2,000,000 were released from escrow related to an acquisition for which the contingent consideration period expired without the additional consideration being earned.

A summary of restricted cash balances appears below:

	Mar. 29, 2008	June 30, 2007	Mar. 31, 2007
Funds deposited in insurance trusts	$ 92,135,000	$ 92,929,000	$ 92,105,000
Escrow funds related to acquisitions		9,000,000	9,000,000
Total	$ 92,135,000	$ 101,929,000	$ 101,105,000

5. Debt

In September 2007, an agreement was signed on the revolving credit facility supporting the company s U.S. and Canadian commercial paper programs, which increased the facility amount to $1,000,000,000. In addition, the termination date on the facility was extended from November 4, 2011 to November 4, 2012.

In January 2008, the SEC granted SYSCO s request to terminate its then existing shelf registration statement that was filed with the SEC in April 2005 for the issuance of debt securities. In February 2008, SYSCO filed with the SEC an automatically effective well-known seasoned issuer shelf registration statement for the issuance of up to $1,000,000,000 in debt securities.

In February 2008, SYSCO issued 4.20% senior notes totaling $250,000,000 due February 12, 2013 (the 2013 notes) and 5.25% senior notes totaling $500,000,000 due February 12, 2018 (the 2018 notes) under its February 2008 shelf registration. The 2013 and 2018 notes, which were priced at 99.835% and 99.310% of par, respectively, are unsecured, are not subject to any sinking fund requirement and include a redemption provision which allows SYSCO to retire the notes at any time prior to maturity at the greater of par plus accrued interest or an amount designed to ensure that the noteholders are not penalized by the early redemption. Proceeds from the notes were utilized to retire commercial paper issuances outstanding as of February 2008.

As of March 29, 2008, SYSCO had uncommitted bank lines of credit which provided for unsecured borrowings for working capital of up to $145,000,000, of which none was outstanding as of March 29, 2008.

As of March 29, 2008, SYSCO s outstanding commercial paper issuances were $64,604,000 and were classified as long-term debt since the company s commercial paper programs are supported by its long-term revolving credit facility in the amount of $1,000,000,000.

During the 39-week period ended March 29, 2008, the aggregate of commercial paper issuances and short-term bank borrowings ranged from approximately $64,194,000 to $1,133,241,000.

6. Employee Benefit Plans

The components of net benefit cost for the 39-week periods presented are as follows:

	Pension Benefits		Other Postretirement Plans	
	Mar. 29, 2008	Mar. 31, 2007	Mar. 29, 2008	Mar. 31, 2007
Service cost	$ 67,927,000	$ 63,492,000	$ 363,000	$ 339,000
Interest cost	75,913,000	68,484,000	427,000	399,000
Expected return on plan assets	(101,509,000)	(87,558,000)		
Amortization of prior service cost	4,490,000	4,264,000	109,000	151,000
Recognized net actuarial loss (gain)	2,556,000	7,266,000	(117,000)	(99,000)
Amortization of net transition obligation			114,000	114,000
Net periodic benefit cost	$ 49,377,000	$ 55,948,000	$ 896,000	$ 904,000

The components of net benefit cost for the 13-week periods presented are as follows:

	Pension Benefits		Other Postretirement Plans	
	Mar. 29, 2008	Mar. 31, 2007	Mar. 29, 2008	Mar. 31, 2007
Service cost	$ 22,643,000	$ 21,164,000	$ 121,000	$ 113,000
Interest cost	25,304,000	22,828,000	142,000	133,000
Expected return on plan assets	(33,837,000)	(29,186,000)		
Amortization of prior service cost	1,498,000	1,421,000	37,000	50,000
Recognized net actuarial loss (gain)	851,000	2,422,000	(39,000)	(33,000)
Amortization of net transition obligation			38,000	38,000
Net periodic benefit cost	$ 16,459,000	$ 18,649,000	$ 299,000	$ 301,000

SYSCO s contributions to its defined benefit plans were $69,237,000 and $68,168,000 during the 39-week periods ended March 29, 2008 and March 31, 2007, respectively.

Although contributions to its qualified pension plan (Retirement Plan) are not required to meet ERISA minimum funding requirements, the company anticipates it will make voluntary contributions of approximately $80,000,000 during fiscal 2008, of which $60,000,000 have been made through March 29, 2008. The company s contributions to the Supplemental Executive Retirement Plan (SERP) and other post-retirement plans are made in the amounts needed to fund current year benefit payments. The estimated fiscal 2008 contributions to fund benefit payments for the SERP and other post-retirement plans are $12,433,000 and $268,000, respectively.

7. Earnings Per Share

The following table sets forth the computation of basic and diluted earnings per share:

	39-Week Period Ended		13-Week Period Ended	
	Mar. 29, 2008	Mar. 31, 2007	Mar. 29, 2008	Mar. 31, 2007
Numerator:				
Net earnings	$ 772,038,000	$ 697,685,000	$ 240,901,000	$ 220,999,000
Denominator:				
Weighted-average basic shares outstanding	607,380,306	618,988,223	603,170,150	617,678,739
Dilutive effect of employee and director stock options	4,861,484	7,519,521	2,603,712	8,072,186
Weighted-average diluted shares outstanding				