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SYSCO CORP  
Form DEFA14A  
October 31, 2005

SCHEDULE 14A INFORMATION  
PROXY STATEMENT PURSUANT TO SECTION 14(A) OF THE SECURITIES  
EXCHANGE ACT OF 1934

Filed by the registrant  [X]  
Filed by a party other than the registrant  [ ]

Check the appropriate box:

- [ ] Preliminary Proxy Statement
- [ ] Confidential, for Use of the Commission Only  
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- [ ] Definitive Proxy Statement
- [X] Definitive Additional Materials
- [ ] Soliciting Material Under Rule 14a-12

SYSCO CORPORATION

-----  
(Name of Registrant as Specified in Its Charter)

N/A  
-----

(Name of Person(s) Filing Proxy Statement if other than the Registrant)  
Payment of filing fee (Check the appropriate box):

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pursuant to Exchange Act Rule 0-11 (Set forth the amount on which the  
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(1) Amount Previously Paid:  
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(2) Form, Schedule or Registration Statement No.:

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(4) Date Filed:

SYSCO

[COMPANY LOGO]

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Houston, Texas 77077-2099  
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NEWS RELEASE

FOR IMMEDIATE RELEASE

FOR MORE INFORMATION

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SYSCO POSTS FIRST QUARTER DILUTED EPS OF \$0.33 AFTER ACCOUNTING CHANGE  
AND EXPENSING \$0.05 FOR SHARE-BASED COMPENSATION

HOUSTON, OCTOBER 31, 2005 -- SYSCO Corporation (NYSE: SY), North America's leading foodservice marketer and distributor, today announced sales and earnings results for the 13-week first quarter of fiscal year 2006 that ended October 1, 2005.

FIRST QUARTER HIGHLIGHTS:

- o Sales increased 6.3% to \$8.0 billion from \$7.5 billion in last year's first quarter.
- o Net earnings before the cumulative effect of an accounting change were \$199.2 million vs. \$225.9 million in last year's first quarter. Net earnings after the cumulative effect of an accounting change were \$208.5 million for the first quarter of fiscal 2006. The accounting change is the result of SYSCO changing its measurement date for pension and other postretirement benefit plans (from fiscal year end to May 31) to accommodate accelerated SEC filing deadlines.
- o Diluted earnings per share before the cumulative effect of an accounting change were \$0.31 compared to \$0.35 in last year's first quarter. Diluted EPS after the cumulative effect of an accounting change were \$0.33.
- o All EPS data for the first quarter of fiscal 2006 includes a net expense of \$0.05 for incremental share-based compensation (primarily options expensing).

Richard J. Schnieders, SYSCO's chairman, chief executive officer and president, said, "The growth initiatives implemented during our last fiscal year resulted in sales continuing to strengthen throughout the first fiscal quarter and we've seen similar progress in the first few weeks of the second quarter. Continued emphasis on Business Review and Development processes, as well as additions to our customer contact personnel, contributed to the quarter's strong 6.3 percent sales growth and increases in customers and market share.

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"We are encouraged about the resiliency of the foodservice industry, especially considering the difficulties it has endured from increased fuel costs and the disruptive effects of Hurricanes Katrina and Rita. New Orleans, Houston and the Gulf Coast are strong foodservice markets for SYSCO and I'm proud of the way our associates have responded to the personal and business challenges that they encountered during the quarter."

SYSCO's sales gains in the quarter were accomplished without the benefit of food cost inflation during the quarter. Inflation, as measured by SYSCO's cost of goods, was 0.4% in the quarter compared to 5.9% in last year's first 13 weeks. The declining food cost inflation also contributed to better gross profit margin performance as the company experienced its smallest decline in gross profit margins in the past 12 fiscal quarters. Non-comparable acquisitions represented 1.2% of sales in the quarter.

SYSCO's operating expenses as a percent of sales increased during the quarter principally due to the expensing of share-based compensation; escalating fuel costs; higher pension costs; extra expenses incurred to serve existing customers as well as some competitors' customers who were affected by Hurricanes Katrina and Rita; and the ongoing investment in SYSCO's National Supply Chain Project.

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In the first quarter of fiscal 2006 SYSCO adopted the provisions of SFAS No. 123(R), Share-Based Payment, utilizing the modified-prospective transition method under which prior period results have not been restated. The results for the first quarter of fiscal 2006 include incremental share-based compensation cost of \$35.5 million (\$31.7 million after tax), or \$0.05 per share. The company currently estimates that expensing for share-based payments for fiscal year 2006 will now be approximately \$90 million to \$110 million after tax, or between \$0.14 and \$0.17 per share.

For the first 13 weeks fuel costs increased \$15.0 million, or 50.0%, compared to the same period last year, or approximately \$0.015 per share. Higher pension costs also added \$6.0 million of expense to the quarter, adding another half-cent impact to EPS and net costs related to the National Supply Chain Project had an impact of approximately \$0.01 to the first quarter's EPS results.

"The RDC is currently shipping about 850,000 cases a week to all 14 operating companies in the Northeast Region," Mr. Schnieders continued, "which is about fifty percent of our planned volume. At current volume levels we have identified a number of operational changes that will make the RDC more efficient and, as a consequence, we plan to hold case volumes constant during the second quarter while we implement the changes. Our previous estimate for the financial impact of the RDC was predicated on projections that the RDC would achieve full volumes in January 2006. We now estimate that full ramp-up of case volume will be reached by the end of fiscal year 2006 and, consequently, previous estimates regarding the financial impact of the RDC and National Supply Chain initiative of being a half-cent accretive to flat in fiscal 2006 will not be achieved. However, we remain confident that the long-term benefits of the project will continue to be achieved."

Mr. Schnieders also noted that the design phase of the second RDC, which will be located in Alachua, Florida, is scheduled to be completed in December, 2005 and the company also expects to announce a site selection for its third RDC that same month.

Capital expenditures were \$94.2 million in first quarter, including continued construction of two fold-out operations that will service the Raleigh,

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North Carolina and Gulf Coast Alabama markets and construction of replacement facilities in Lincoln, Illinois and Denver, Colorado.

SYSCO is the largest foodservice marketing and distribution organization in North America, providing food and related products and services to approximately 390,000 restaurants, healthcare and educational facilities, lodging establishments and other foodservice customers. SYSCO's operations are located throughout the United States and Canada and include broadline companies, specialty produce and custom-cut meat operations, Asian foodservice distributors, hotel supply operations and chain restaurant distribution subsidiaries. As previously announced, SYSCO's first quarter fiscal 2006 earnings conference call will be held at 10:00 a.m. EDT on Monday, October 31, 2005. A live webcast of the call, as well as a copy of this press release, will be available online at [www.sysco.com](http://www.sysco.com) under Investor Relations.

### Forward-Looking Statements

Certain statements made herein are forward-looking statements under the Private Securities Litigation Reform Act of 1995. They include statements regarding capital expenditures; sales growth; the impact of option expensing; SYSCO's ability to increase sales, improve operating efficiencies, control expenses and execute growth strategies; and the expected timing and benefits of the national supply chain project and regional redistribution centers, including the Northeast RDC. These statements involve risks and uncertainties and are based on management's current expectations and estimates; actual results may differ materially. Those risks and uncertainties that could impact these statements include risks that pertain to SYSCO's business, including the risks relating to the foodservice distribution industry's relatively low profit margins and sensitivity to general economic conditions, including the current economic environment and consumer spending; SYSCO's leverage and debt risks; the successful completion of acquisitions and integration of acquired companies; the risk of interruption of supplies due to lack of long-term contracts, severe weather, work stoppages or otherwise; construction schedules; management's allocation of capital and the timing of capital purchases such as fleet and equipment; competitive conditions; labor issues; and internal factors such as the ability to control expenses. The expected impact of option expensing is based on certain assumptions regarding the number and fair value of options granted, resulting tax benefits and shares outstanding. The actual impact of option expensing could vary significantly to the extent actual results vary significantly from assumptions. For a discussion of additional factors that could cause actual results to differ from those described in the forward-looking statements, see the Company's Annual Report on Form 10-K for the fiscal year ended July 2, 2005 as filed with the Securities and Exchange Commission.

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SYSCO CORPORATION  
CONSOLIDATED RESULTS OF OPERATIONS (UNAUDITED)  
(In Thousands Except for Share Data)

FOR THE 13-WEEKS EN  
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OCTOBER 1, 2005  
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Sales  
Costs and expenses

\$8,010,484

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Cost of sales	6,480,793
Operating expenses	1,176,656
Interest expense	22,246
Other, net	(3,115)
Total costs and expenses	7,676,580
Earnings before income taxes	333,904
Income taxes	134,694
Earnings before cumulative effect of accounting change	199,210
Cumulative effect of accounting change	9,285
Net earnings	\$ 208,495
Earnings before cumulative effect of accounting change:	
Basic earnings per share	\$ 0.32
Diluted earnings per share	\$ 0.31
Net Earnings:	
Basic earnings per share	\$ 0.33
Diluted earnings per share	\$ 0.33
Average shares outstanding	626,554,930
Diluted average shares outstanding	634,959,278

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Comparative segment sales data.  
(Unaudited)

FOR THE 13-WEEKS E

(\$000)

OCTOBER 1, 2005

SALES:

Broadline	\$6,344,533
SYGMA	1,059,781
Other	692,663
Intersegment	(86,493)

Total \$ 8,010,484

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SYSCO CORPORATION  
CONSOLIDATED BALANCE SHEETS (UNAUDITED)  
(In Thousands)

OCTOBER 1, 2005

ASSETS	
Current assets	
Cash	\$ 177,918
Receivables	2,406,855
Inventories	1,568,546
Deferred taxes	65,184
Prepaid expenses	67,344
	-----
Total current assets	4,285,847
Plant and equipment at cost, less depreciation	2,280,580
Other assets	
Goodwill and intangibles	1,324,354
Restricted cash	102,178
Prepaid pension cost	381,510
Other	231,317
	-----
Total other assets	2,039,359
	-----
Total assets	\$ 8,605,786
	=====
LIABILITIES AND SHAREHOLDERS' EQUITY	
Current liabilities	
Notes payable	\$ 31,606
Accounts payable	1,806,046
Accrued expenses	667,429
Accrued income taxes	473,645
Current maturities of long-term debt	210,431
	-----
Total current liabilities	3,189,157
Other liabilities	
Long-term debt	1,451,697
Deferred taxes	854,889
Other long-term liabilities	389,653
	-----
Total other liabilities	2,696,239
Contingencies	
Shareholders' equity	
Preferred stock	-
Common stock, par \$1 per share	765,175
Paid-in capital	438,692
Retained earnings	4,667,348
Other comprehensive income	21,910
Treasury stock	(3,172,735)
	-----
Total shareholders' equity	2,720,390
	-----
Total liabilities and shareholders' equity	\$8,605,786
	=====

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SYSCO CORPORATION  
CONSOLIDATED CASH FLOWS (UNAUDITED)  
(In Thousands)

	FO OCTOBER 1, 2 -----
Cash flows from operating activities:	
Net earnings	\$ 208,495
Add non-cash items:	
Cumulative effect of accounting change	(9,285)
Share-based compensation expense	41,280
Depreciation and amortization	85,056
Deferred tax provision	112,007
Provision for losses on receivables	7,703
Additional investment in certain assets and liabilities, net of effect of businesses acquired:	
(Increase) in receivables	(112,765)
(Increase) in inventories	(93,571)
(Increase) in prepaid expenses	(7,021)
(Decrease) in accounts payable	(2,470)
(Decrease) in accrued expenses	(40,341)
(Decrease) in accrued income taxes	(23,462)
(Increase) decrease in other assets	(9,757)
Increase (decrease) in other long-term liabilities and prepaid pension cost, net	42,595
Excess tax benefits from share-based compensation arrangements	(2,236)
Net cash provided by operating activities	196,228
Cash flows from investing activities:	
Additions to plant and equipment	(94,231)
Proceeds from sales of plant and equipment	10,217
Acquisition of businesses, net of cash acquired	(28,357)
Increase in restricted cash balances	(447)
Net cash used for investing activities	(112,818)
Cash flows from financing activities:	
Bank and commercial paper repayments	(32,392)
Other debt borrowings	293,355
Cash paid for termination of interest rate swap	(21,196)
Common stock reissued from treasury	52,355
Treasury stock purchases	(295,424)
Dividends paid	(94,557)
Excess tax benefits from share-based compensation arrangements	2,236
Net cash used for financing activities	(95,623)
Effect of exchange rate changes on cash	(1,547)
Net decrease in cash	(13,760)
Cash at beginning of period	191,678

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Cash at end of period	----- \$ 177,918 =====
Cash paid during the period for:	
Interest	\$ 21,076
Income taxes	42,024

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COMPARATIVE SUPPLEMENTAL STATISTICAL INFORMATION RELATED TO SALES (UNAUDITED)

Comparative SYSCO Brand Sales and Marketing Associate-Served Sales data are summarized below.

	FOR THE 13-WEEKS -----
	OCTOBER 1, 2005 -----
SYSCO Brand Sales as a % of MA-Served Sales	56.7%
SYSCO Brand Sales as a % of Total Traditional Broadline Sales in the U.S.	49.0%
MA-Served Sales as a % of Total Traditional Broadline Sales in the U.S.	54.7%

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