

SYSCO CORP  
Form DEF 14A  
September 30, 2005

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OMB APPROVAL

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

**SCHEDULE 14A**

Proxy Statement Pursuant to Section 14(a) of the Securities  
Exchange Act of 1934 (Amendment No. )

Filed by the Registrant  x  
Filed by a Party other than the Registrant  o

Check the appropriate box:

- o Preliminary Proxy Statement
- o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
- x Definitive Proxy Statement
- o Definitive Additional Materials
- o Soliciting Material Pursuant to §240.14a-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):

- x No fee required.
- o Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

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4) Proposed maximum aggregate value of transaction:

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1) Amount Previously Paid:

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2) Form, Schedule or Registration Statement No.:

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**SYSCO CORPORATION  
1390 ENCLAVE PARKWAY  
HOUSTON, TEXAS 77077-2099  
NOTICE OF ANNUAL MEETING OF STOCKHOLDERS  
TO BE HELD NOVEMBER 11, 2005**

To the Stockholders of Sysco Corporation:

The Annual Meeting of Stockholders of Sysco Corporation, a Delaware corporation, will be held on Friday, November 11, 2005 at 10:00 a.m. at The Houstonian Hotel located at 111 North Post Oak Lane, Houston, Texas 77024, for the following purposes:

1. To elect four directors;
2. To ratify the appointment of Ernst & Young LLP as SYSCO's independent accountants for fiscal 2006;
3. To approve the 2005 Management Incentive Plan;
4. To approve the payment of compensation to certain executive officers pursuant to the 2000 Management Incentive Plan so that the deductibility of such compensation will not be limited by Section 162(m) of the Internal Revenue Code;
5. To approve the 2005 Non-Employee Directors Stock Plan; and

6. To transact any other business as may properly be brought before the meeting or any adjournment thereof.

Only stockholders of record at the close of business on September 13, 2005 will be entitled to receive notice of and to vote at the Annual Meeting. You may inspect a list of stockholders of record at the Company's offices during regular business hours during the 10-day period before the Annual Meeting. You may also inspect this list at the Annual Meeting.

We hope you will be able to attend the Annual Meeting in person. Whether or not you plan to attend in person, we urge you to promptly vote your shares by telephone, by the Internet or by returning the enclosed proxy card in order that your vote may be cast at the Annual Meeting.

By Order of the Board of Directors

Richard J. Schnieders  
*Chairman of the Board, Chief  
Executive Officer and President*

October 3, 2005

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**SYSCO CORPORATION  
1390 ENCLAVE PARKWAY  
HOUSTON, TEXAS 77077-2099  
PROXY STATEMENT  
2005 ANNUAL MEETING OF STOCKHOLDERS**

October 3, 2005

**Information About Attending the Annual Meeting**

Our Annual Meeting will be held on Friday, November 11, 2005, at 10:00 a.m. at The Houstonian Hotel located at 111 North Post Oak Lane, Houston, Texas 77024.

**Information About This Proxy Statement**

We sent you these proxy materials because our Board of Directors is soliciting your proxy to vote your shares at the Annual Meeting. We began mailing these proxy materials to stockholders on or about October 3, 2005.

**Who Can Vote**

You can vote at the Annual Meeting if you owned shares at the close of business on September 13, 2005. You are entitled to one vote for each share you owned on that date on each matter presented at the Annual Meeting.

On September 13, 2005, there were 626,300,461 shares of Common Stock outstanding. All of our current directors and executive officers (26 persons) owned an aggregate of 2,381,123 shares, which was less than 1% of our outstanding stock as of September 13, 2005. We expect that these individuals will vote their shares in favor of electing the four nominees named below, for ratification of the appointment of the independent accountants, for approving the 2005 Management Incentive Plan, for approving compensation payments to certain executive officers under the 2000 Management Incentive Plan, and for approving the 2005 Non-Employee Directors Stock Plan.

**How to Vote**

You may vote your shares as follows:

in person at the Annual Meeting;

by telephone (see the enclosed proxy card for instructions);

by Internet (see the enclosed proxy card for instructions); or

by mail by signing, dating and mailing the enclosed proxy card.

If you vote by proxy, the individuals named on the proxy card (your proxies) will vote your shares in the manner you indicate. You may specify whether your shares should be voted for all, some or none of the nominees for director, and you may abstain with respect to any other matter or specify whether your shares should be voted for or against the ratification of the appointment of the independent accountants, for or against approval of the 2005 Management Incentive Plan, for or against payment of compensation to certain executive officers under the 2000 Management Incentive Plan, and for or against approval of the 2005 Non-Employee Directors Stock Plan.

If you sign and return your proxy card without indicating your voting instructions, your shares will be voted FOR the election of the four nominees for director, FOR the ratification of the appointment of Ernst & Young as independent accountants for fiscal 2006, FOR the 2005 Management Incentive Plan, FOR the

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payment of compensation to certain executive officers under the 2000 Management Incentive Plan, and FOR the 2005 Non-Employee Directors Stock Plan.

If your shares are not registered in your own name and you plan to attend the Annual Meeting and vote your shares in person, you should contact your broker or agent in whose name your shares are registered to obtain a proxy executed in your favor and bring it to the Annual Meeting in order to vote.

### **How to Revoke or Change Your Vote**

You may revoke or change your proxy at any time before it is exercised by:

delivering written notice of revocation to SYSCO's Corporate Secretary in time for him to receive it before the Annual Meeting;

voting again by telephone, Internet or mail; or

voting in person at the Annual Meeting.

The last vote that we receive from you will be the vote that is counted.

### **Broker Non-Votes**

A broker non-vote occurs when a broker holding shares for a beneficial owner does not vote on a particular proposal because the broker does not have discretionary voting authority and has not received voting instructions from the beneficial owner.

### **Quorum Requirement**

A quorum is necessary to hold a valid meeting. A quorum will exist if the holders of at least 35% of all the shares entitled to vote at the meeting are present in person or by proxy. Abstentions and broker non-votes are counted as present for establishing a quorum.

### **Votes Necessary for Action to be Taken**

Four directors will be elected at the meeting by a plurality of all the votes cast at the meeting, meaning that the four nominees in Class I with the most votes will be elected. The affirmative vote of a majority of all of the votes cast is required to approve the ratification of the appointment of the independent accountants, the 2005 Management Incentive Plan, the payment of compensation to certain executive officers under the 2000 Management Incentive Plan, and the 2005 Non-Employee Directors Stock Plan. In addition, NYSE rules require that at least 50% of the shares outstanding on September 13, 2005 actually cast a vote (either for, against or abstain) with respect to the proposals to approve the 2005 Management Incentive Plan and 2005 Non-Employee Directors Stock Plan. Broker non-votes are not votes cast for this purpose. Abstentions are not counted for purposes of the election of directors, but will have the effect of a vote against the other proposals. Broker non-votes will have no effect on the election of directors and will be disregarded with respect to all other proposals.

### **Who Will Count Votes**

We will appoint one or more Inspectors of Election who will determine the number of shares outstanding, the voting power of each, the number of shares represented at the Annual Meeting, the existence of a quorum and whether or not the proxies and ballots are valid and effective.

The Inspectors of Election will determine, and retain for a reasonable period a record of the disposition of, any challenges and questions arising in connection with the right to vote and will count all votes and ballots cast for and against and any abstentions with respect to all proposals and will determine the results of each vote.

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**Cost of Proxy Solicitation**

We will pay the cost of solicitation of proxies including preparing, printing and mailing this proxy statement. We will authorize banks, brokerage houses and other custodians, nominees and fiduciaries to forward copies of proxy materials and will reimburse them for their costs in sending the materials.

We have retained Georgeson Shareholder to help us solicit proxies from these entities and certain individual stockholders, in writing or by telephone, at an estimated fee of \$11,000 plus reimbursement for their out-of-pocket expenses.

**Receiving Proxy Materials on the Internet**

Registered stockholders may sign up on the Internet to receive future proxy materials and other stockholder communications on the Internet instead of by mail. This will reduce our printing and postage costs. In order to receive the communications electronically, you must have an e-mail account, access to the Internet through an Internet service provider and a web browser that supports secure connections. You can access the Internet site at [www.econsent.com/syy](http://www.econsent.com/syy) for additional information and to sign up. You will be asked to enter the number of your stock account with our transfer agent, EquiServe Trust Company, N.A. That number is shown on dividend checks, on stock certificates and on your proxy card. After you have provided identification and transmitted your e-mail address, the transfer agent will send you an e-mail message confirming your acceptance of electronic stockholder communications.

When proxy materials for next year's Annual Meeting are ready for distribution, those who have accepted electronic receipt will receive e-mail notice of their control numbers and the Internet site for viewing proxy materials and for voting. Acceptance of electronic receipt will remain in effect until it is withdrawn. You can withdraw your consent or change your e-mail address by following the procedures at the above-referenced Internet site.

Many brokerage firms and banks are also offering electronic proxy materials to their clients. If you are a beneficial owner of SYSCO stock that is held for you by a broker or bank, you should contact that broker or bank to find out whether this service is available to you.

**Other Matters**

We do not know of any matter that will be presented at the Annual Meeting other than the election of directors and the proposals discussed in this proxy statement. However, if any other matter is properly presented at the Annual Meeting, your proxies will act on such matter in their best judgment.

**Annual Report**

A copy of our 2005 Annual Report to Shareholders, including our Annual Report on Form 10-K for fiscal 2005, without exhibits and as filed with the SEC, is being mailed with this proxy statement. We will furnish additional copies of our Annual Report without charge upon your written request if you are a record or beneficial owner of Common Stock whose proxy we are soliciting in connection with the Annual Meeting. Please address requests for a copy of the Annual Report to the Investor Relations Department, SYSCO Corporation, 1390 Enclave Parkway, Houston, Texas 77077-2099. The Annual Report on Form 10-K is also available on our website under SEC Filings at [www.sysco.com/investor/investor.html](http://www.sysco.com/investor/investor.html).

**ELECTION OF DIRECTORS  
ITEM NO. 1 ON THE PROXY CARD**

The Board of Directors is currently divided into three classes of four, three and four directors each. The directors in each class serve for a three-year term. A different class is elected each year to succeed the directors whose terms are expiring. Thomas E. Lankford retired from the board in July 2005 and the size of the board was reduced from 12 to its current size of 11.

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The Board of Directors has nominated the following four persons for election as directors in Class I to serve for three-year terms or until their successors are elected and qualified:

Judith B. Craven

Richard G. Merrill

Phyllis S. Sewell

Richard G. Tilghman

All of the nominees are currently serving as directors of SYSCO. All of the nominees have consented to serve if elected. Although management does not contemplate the possibility, in the event any nominee is not a candidate or is unable to serve as a director at the time of the election, the proxies will vote for any nominee who is designated by the present Board of Directors to fill the vacancy.

Set forth below is biographical information for each nominee for election as a director at the 2005 Annual Meeting:

*Judith B. Craven, M.D.*, 59, has served as a director of SYSCO since 1996. Dr. Craven served as President of the United Way of the Texas Gulf Coast from 1992 until her retirement in September 1998. Dr. Craven is also a director of Belo Corporation, Luby's Cafeterias, Inc., Sun America Funds and VALIC. She is also a Regent for the University of Texas. Dr. Craven is a member of the Corporate Governance and Nominating Committee and the Finance Committee.

*Richard G. Merrill*, 74, has served as a director of SYSCO since 1983. Currently retired, he formerly served as Executive Vice President of The Prudential Insurance Company of America. Mr. Merrill is Chairman of the Compensation and Stock Option Committee and is also a member of the Audit Committee and Executive Committee.

*Phyllis S. Sewell*, 74, has served as a director of SYSCO since 1991. Currently retired, she formerly served as Senior Vice President of Federated Department Stores, Inc. Mrs. Sewell is a member of the Compensation and Stock Option Committee and Corporate Governance and Nominating Committee.

*Richard G. Tilghman*, 65, has served as a director of SYSCO since November 2002. Mr. Tilghman served as Vice Chairman and Director of SunTrust Banks from 1999 until his retirement in 2000. He served as Chairman and Chief Executive Officer of Crestar Financial Corporation, a bank holding company, from 1986 until 1999. Mr. Tilghman is Chairman of the Audit Committee and is also a member of the Compensation and Stock Option Committee and the Executive Committee.

***The Board of Directors recommends a vote FOR the nominees listed above.***

The following Class II directors are serving terms that expire in 2006:

*Jonathan Golden*, 68, has served as a director of SYSCO since 1984. Mr. Golden is a partner of Arnall Golden Gregory LLP, counsel to SYSCO. Mr. Golden is a member of the Executive Committee and the Finance Committee.

*Joseph A. Hafner, Jr.*, 60, has served as a director of SYSCO since November 2003. He is chairman of Riviana Foods, Inc., a position he has held since March 2005. He served as president and chief executive officer of Riviana from 1984 until March 2005. Mr. Hafner is Chairman of the Finance Committee and is also a member of the Audit Committee and the Executive Committee.

*Richard J. Schnieders*, 57, has served as a director of SYSCO since 1997. Mr. Schnieders has served as Chairman and Chief Executive Officer of SYSCO since January 2003. He assumed the additional role of President in July 2005. Mr. Schnieders previously served as President from July 2000 through December 2002 and as Chief Operating Officer from January 2000 through December 2002. Mr. Schnieders served as Executive Vice President, Foodservice Operations from January 1999 to July 2000 and as Senior Vice President, Merchandising Services and Multi-Unit Sales from 1997 until January 1999. From 1992 until 1997, he served as Senior Vice President, Merchandising Services. From 1988 until 1992, Mr. Schnieders served as

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President and Chief Executive Officer of Hardin s-Sysco Food Services, LLC. He has been employed by SYSCO since 1982. Mr. Schnieders also serves as a director of Aviall, Inc. Mr. Schnieders is Chairman of the Executive Committee and is also a member of the Finance Committee and the Employee Benefits Committee.

The following Class III directors are serving terms that expire in 2007:

*Colin G. Campbell*, 69, has served as a director of SYSCO since 1989. Mr. Campbell is Chairman, President and Chief Executive Officer of the Colonial Williamsburg Foundation, a private operating foundation. He also serves as a director of Pitney Bowes Inc. and Rockefeller Financial Services, Inc. From 1988 to 2000, Mr. Campbell served as the President of Rockefeller Brothers Fund. Mr. Campbell is Chairman of the Corporate Governance and Nominating Committee and is also a member of the Compensation and Stock Option Committee and the Executive Committee.

*John M. Cassaday*, 52, has served as a director of SYSCO since November 2004. He is president and chief executive officer of Corus Entertainment, Inc., a media and entertainment company based in Canada, a position he has held since September 1999. He also serves as a director of Corus and Manulife Financial Corporation. Mr. Cassaday is a member of the Audit Committee and the Finance Committee.

*John K. Stubblefield, Jr.*, 59, has served as a director of SYSCO since January 2003. Mr. Stubblefield is Executive Vice President, Finance and Chief Financial Officer, a position he has held since January 2005. He served as Executive Vice President, Finance and Administration from January 2000 until January 2005. He served as Senior Vice President, Finance and Administration from 1998 to January 2000 and as Senior Vice President, Controller and Chief Financial Officer from 1994 to 1998. He served as Vice President and Controller from 1992 to 1993 and as Senior Vice President and Controller from 1993 to 1994. He served as Vice President of Finance of Nobel/ SYSCO Food Services Company from 1986 to 1992 and as Controller of SYSCO s Houston subsidiary from 1984 until 1986. Mr. Stubblefield is a member of the Employee Benefits Committee.

*Jackie M. Ward*, 67, has served as a director of SYSCO since September 2001. Currently retired, Ms. Ward founded in 1968, and later served as Chairman, President and Chief Executive Officer of, Computer Generation Incorporated, which was acquired in December 2000 by Intec Telecom Systems PLC, a software company based in the United Kingdom. Ms. Ward is a director of Bank of America, Equifax Inc., Flowers Foods, Inc., Sanmina-SCI Corporation and WellPoint, Inc. Ms. Ward is a member of the Compensation and Stock Option Committee and the Corporate Governance and Nominating Committee.

Unless otherwise noted, the persons named above have been engaged in the principal occupations shown for the past five years or longer.

**Director Compensation***2005 Compensation*

During fiscal 2005, our non-employee directors received the following compensation, in addition to the expense reimbursements discussed below:

<b>Name</b>	<b>Annual Retainer (\$)</b>	<b>Meeting Attendance Fees (\$)</b>	<b>Options (#)</b>	<b>Retainer Shares (#)</b>
Campbell	\$ 67,500(3)	\$ 22,000	8,000	
Cassaday	30,000(3)	9,000	8,000	4,000
Craven	60,000(1)(3)	13,000	8,000	
Golden	60,000(1)(3)	8,000(2)	8,000	
Hafner	65,000(1)(3)	21,000(2)	8,000	
Merrill	67,500(1)(3)	26,500(2)	8,000	
Sewell	60,000(1)(3)	15,000(2)	8,000	
Tilghman	67,500(3)	28,000	8,000	
Ward	60,000(1)(3)	16,000(2)	8,000	



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- (1) One-half of these retainer fees were deferred under the Directors Deferred Compensation Plan.
- (2) All of these meeting attendance fees were deferred under the Directors Deferred Compensation Plan.
- (3) All of the non-employee directors elected to receive 50% of their retainer fees in the form of common stock. The Company issued one additional share for every two elected shares. Amounts shown do not reflect the value of the additional shares.

*Fees*

We pay non-employee directors who serve as committee chairpersons \$70,000 per year and all other non-employee directors \$60,000 per year plus reimbursement of expenses for all services as a director, including committee participation or special assignments. Directors are encouraged to have their spouses accompany them to dinners and other functions held in connection with board meetings, and the company pays, either directly or through reimbursement, all expenses associated with their travel to and attendance at these business-related functions.

In addition to the annual retainer, non-employee directors receive the following fees for attendance at meetings: For committee meetings held in conjunction with regular Board meetings, committee chairmen who attend in person (or who participate by telephone because of illness or the inability to travel) will receive \$1,500 and committee members who attend in person (or who participate by telephone because of illness or the inability to travel) will receive \$1,000;

For special committee meetings (not held in conjunction with regular Board meetings), committee chairmen who attend in person or who participate by telephone will receive \$1,500 and committee members who attend in person or who participate by telephone will receive \$1,000; and

For special Board meetings, all non-employee directors who attend in person or who participate by telephone will receive \$1,000.

*Directors Deferred Compensation Plan*

Non-employee directors may defer all or a portion of their annual retainer and meeting attendance fees under the Directors Deferred Compensation Plan. Non-employee directors may choose from a variety of investment options, including Moody's Average Corporate Bond Yield plus 1%, with respect to amounts deferred. Such deferred amounts will be credited with investment gains or losses until the non-employee director's retirement from the Board or until the occurrence of certain other events.

*Non-Employee Directors Stock Plan*

In May 1998, the Board of Directors adopted, and our stockholders subsequently approved, the SYSCO Non-Employee Directors Stock Plan. The Plan was amended in 2001, and shareholders are being asked to approve a new plan at the 2005 Annual Meeting. If the new proposed plan is approved, no further grants will be made under the current plan. The new proposed plan is described in more detail beginning on page 43. All historical data with respect to grants of stock options under our benefit plans contained in this Proxy Statement has been adjusted to reflect stock splits.

*Options.* Under the current plan, non-employee directors are eligible to receive stock options if, for the immediately preceding fiscal year, we have achieved after-tax basic earnings per share of 10% over the previous year. Non-employee directors will continue to be eligible to receive stock options under the new proposed plan if it is approved; however, there will be no performance requirement. The size of individual grants and vesting terms will be set by the Board at the time of grant. If the new proposed plan is approved, each non-employee member of the Board will receive a grant of 3,500 options in November 2005. These options are expected to vest over a three-year period and will have a seven-year term. The exercise price will be determined on the date of grant based on the fair market value of the shares subject to the option on the date of grant.



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In fiscal 2005, we granted options to purchase an aggregate of 72,000 shares to nine non-employee directors. These options have a weighted average exercise price of \$33.10, vest ratably over a five-year period and expire seven years after the date of grant.

*Elected Shares.* The current plan also permits each non-employee director to elect to receive up to one-half of his or her annual retainer in Common Stock, in which case we will provide a matching grant of 50% of the number of shares received as a portion of the retainer.

*Retainer Shares.* Under the current plan, each newly elected director who has not previously received a retainer award is granted a one-time retainer award of 4,000 shares. These shares vest in thirds every other year during a six-year period based on increases in earnings per share. Any retainer shares that have not vested as of the sixth anniversary of the date of grant are forfeited. Mr. Cassaday received a retainer stock award of 4,000 shares upon his election to the Board on November 12, 2004.

Under the new proposed plan, retainer awards for newly elected directors will consist of 6,000 shares and will vest ratably over a three-year period without regard to performance.

*Restricted Stock.* Under the new proposed plan, the Board will be authorized to issue restricted stock to non-employee directors on terms set forth in the plan. If the new proposed plan is approved, each non-employee member of the Board will receive a grant of 3,000 restricted shares in November 2005. These restricted shares will vest ratably over a three-year period.

No other compensation was paid for director services during the fiscal year ended July 2, 2005. See Certain Relationships.

**Board Meetings and Attendance**

The Board of Directors held six meetings during fiscal 2005 and all directors attended 75% or more of the aggregate of:

the total number of meetings of the Board of Directors, and

the total number of meetings held by all committees of the Board on which he or she served during fiscal 2005.

It is the policy of the Board that all directors attend the Annual Meeting of Stockholders. In fiscal 2005, all directors attended the Annual Meeting.

**Committees of the Board**

The following directors serve on the committees indicated:

Name	Audit Committee	Compensation and Stock Option Committee	Corporate Governance and Nominating Committee
Colin G. Campbell		x	x*
John M. Cassaday	x		
Judith B. Craven			x
Joseph A. Hafner, Jr.	x		
Richard G. Merrill	x	x*	
Phyllis S. Sewell		x	x
Richard G. Tilghman	x*	x	
Jackie M. Ward		x	x

\* Chairman of the Committee

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The Audit Committee held 12 meetings during fiscal 2005. The function of the Audit Committee includes oversight of various auditing and accounting matters, including the selection of our independent public accountants, the scope of the audit procedures, the nature of all audit and non-audit services to be performed, the fees to be paid to the independent public accountants, the performance of our independent public accountants and our accounting practices and policies.

The Compensation and Stock Option Committee held seven meetings during fiscal 2005. The function of the Compensation and Stock Option Committee is to evaluate and determine the annual compensation of the Chief Executive Officer, to consider the annual compensation of executive officers, and to oversee the administration of SYSCO's Management Incentive Plan, stock incentive and option plans, the 2004 Long-Term Incentive Cash Plan, the Supplemental Performance Based Bonus Plan and other executive benefit plans.

The Corporate Governance and Nominating Committee held five meetings during fiscal 2005. The function of the Corporate Governance and Nominating Committee is to propose directors, committee members and officers for election or reelection, to evaluate (in conjunction with the Compensation and Stock Option Committee) the performance of the Chief Executive Officer, to review the performance of the members of the Board and its committees, to consider the annual compensation of non-employee directors, and to review and make recommendations regarding the organization and effectiveness of the Board and its committees, the establishment of corporate governance principles, the conduct of meetings, succession planning and SYSCO's governing documents.

The Board of Directors also has a Finance Committee which held five meetings during fiscal 2005. The function of the Finance Committee is to assist the Board in satisfying its fiduciary responsibilities relating to financial performance and financial planning of the Company in pursuing its financial objectives. The Committee reviews policies regarding capital structure, dividends and liquidity; reviews risk assessment and risk management policies; reviews and recommends the sale or issuance of equity and certain debt securities; reviews acquisitions and financing alternatives; reviews and approves certain capital expenditures; and establishes and monitors high-level investment and funding objectives and investment performance and funding of the Company's tax-qualified retirement and non-qualified benefit plans. The Finance Committee is chaired by Joseph A. Hafner, Jr., and its members include Mr. Cassaday, Dr. Craven, Mr. Golden and Mr. Schnieders.

The Board of Directors also has an Executive Committee which held one meeting during fiscal 2005. The Executive Committee is authorized to exercise all of the powers of the Board when necessary, to the extent permitted by applicable law. The Executive Committee is chaired by Mr. Schnieders and its members include Mr. Campbell, Mr. Golden, Mr. Hafner, Mr. Merrill and Mr. Tilghman.

The Board of Directors also has an Employee Benefits Committee that oversees the maintenance and administration of the Corporation's employee stock purchase, welfare benefit, and tax-qualified retirement plans. Messrs. Schnieders and Stubblefield serve as members of this Committee.

Current copies of the charters for the Audit Committee, the Compensation and Stock Option Committee, the Corporate Governance and Nominating Committee and the Finance Committee are published on the Company's website at [www.sysco.com/investor/governance.html](http://www.sysco.com/investor/governance.html) and are available in print by writing to the Investor Relations Department, SYSCO Corporation, 1390 Enclave Parkway, Houston, Texas 77077-2099. The Audit Committee Charter is also attached to this Proxy Statement as Annex A.

**Compensation Committee Interlocks and Insider Participation**

Mr. Campbell, Mr. Merrill, Mrs. Sewell, Mr. Tilghman and Ms. Ward each served on the Compensation and Stock Option Committee during fiscal 2005. During fiscal 2005, none of the members of the Committee was an officer or employee of SYSCO or any of its subsidiaries or served as an officer of any company with respect to which any executive officer of SYSCO served on such company's board of directors, and none had any relationship with the Company requiring disclosure under Item 404 of SEC Regulation S-K. In addition, none of the members of the Committee are former employees of SYSCO or any of its subsidiaries.

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**CERTAIN RELATIONSHIPS**

Mr. Golden is the sole stockholder of Jonathan Golden, P.C., a partner in the law firm of Arnall Golden Gregory LLP, Atlanta, Georgia, counsel to SYSCO. We believe that the fees paid to this firm in fiscal 2005 were fair and reasonable in view of the level and extent of services rendered.

**CORPORATE GOVERNANCE**

**Corporate Governance Guidelines**

The Board of Directors has adopted the Sysco Corporation Corporate Governance Guidelines. These guidelines outline the functions of the Board, director qualifications and responsibilities, and various processes and procedures designed to ensure effective and responsive governance. These guidelines also outline considerations for determining qualification for membership to the Board such as diversity, skills, experience, time available and the number of other boards the member sits on in the context of the needs of the Board and the Company. The guidelines are reviewed from time to time in response to changing regulatory requirements and best practices and are revised accordingly. The guidelines were last revised in September 2005. The Corporate Governance Guidelines are published on our website at [www.sysco.com/investor/governance.html](http://www.sysco.com/investor/governance.html), and are available in print by writing to the Investor Relations Department, SYSCO Corporation, 1390 Enclave Parkway, Houston, Texas 77077-2099.

**Code of Business Conduct**

All of our directors, officers and employees, including our principal executive officer, principal financial officer, principal accounting officer and controller, are required to comply with our long-standing Code of Business Conduct to help ensure that our business is conducted in accordance with the highest standards of moral and ethical behavior. Our Code of Business Conduct covers all areas of professional conduct, including customer relationships, equal opportunity, payment of gratuities and receipt of payments or gifts, competition and fair dealing, political contributions, antitrust, conflicts of interest, insider trading, financial disclosure, intellectual property and confidential information, as well as requiring strict adherence to all laws and regulations applicable to our business. Employees are required to report any violations or suspected violations of the Code and may do so by using SYSCO's ethics hotline. The Code includes an anti-retaliation statement. The Code of Business Conduct is published on our website at [www.sysco.com/investor/governance.html](http://www.sysco.com/investor/governance.html) and is available in print by writing to the Investor Relations Department, SYSCO Corporation, 1390 Enclave Parkway, Houston, Texas 77077-2099.

**Presiding Director; Communicating with the Board**

The non-management directors meet in executive session without members of management present at every regular Board meeting. During fiscal 2005, the non-management directors held five executive sessions without the CEO or any other member of management present. Richard G. Tilghman, chairman of the Audit Committee, has been selected to preside at these executive sessions during fiscal 2006. In addition, the non-employee directors, other than Mr. Golden and any other director who may be deemed not independent, meet in executive session at least once a year.

Interested parties may communicate with Mr. Tilghman, the non-management directors as a group and the other members of the Board by confidential email. All emails will be delivered to the presiding director who will forward them as appropriate. The Board requests that items unrelated to the duties and responsibilities of the Board not be submitted, such as product inquiries and complaints, job inquiries, business solicitations and junk mail. The form to communicate by email is accessible in the corporate governance section of SYSCO's website at [www.sysco.com/investor/contact\\_board.html](http://www.sysco.com/investor/contact_board.html).

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**Director Independence**

Our Corporate Governance Guidelines require that at least a majority of our directors meet the criteria for independence established by the New York Stock Exchange for continued listing, and all applicable legal requirements. Additionally, all members of the Audit Committee, Compensation and Stock Option Committee and Corporate Governance and Nominating Committee are required to be independent.

Under New York Stock Exchange listing standards, to be considered independent, a director must be determined to have no material relationship with SYSCO other than as a director. The standards specify the criteria by which the independence of directors will be determined, including guidelines for directors and their immediate family members with respect to employment or affiliation with SYSCO or its independent public accountants.

In addition to the NYSE's standards for independence, the Company's Corporate Governance Guidelines provide that the following relationships will not impair a director's independence: (i) if a SYSCO director is an executive officer of another company that does business with SYSCO and the annual sales to, or purchases from, SYSCO are less than two percent of the annual revenues of the company he or she serves as an executive officer; (ii) if a SYSCO director is an executive officer of another company which is indebted to SYSCO, or to which SYSCO is indebted, and the total amount of either company's indebtedness to the other is less than two percent of the total consolidated assets of the company he or she serves as an executive officer; and (iii) if a SYSCO director serves as an officer, director or trustee of a charitable organization, and SYSCO's discretionary charitable contributions to the organization are less than two percent of that organization's total annual charitable receipts (SYSCO's automatic matching of employee charitable contributions to higher education will not be included in the amount of SYSCO's contributions for this purpose).

After reviewing all relevant relationships of the directors, the Board of Directors has determined that Mr. Campbell, Mr. Cassaday, Dr. Craven, Mr. Hafner, Mr. Merrill, Mrs. Sewell, Mr. Tilghman and Ms. Ward are independent under the NYSE standards and the categorical standards set forth in the Corporate Governance Guidelines and described above. The Board has also determined that each member of the Audit Committee, Compensation and Stock Option Committee and Corporate Governance and Nominating Committee is independent.

**Nominating Committee Procedures**

In accordance with its Charter, the Corporate Governance and Nominating Committee will observe the following procedures in identifying and evaluating candidates for election to the Company's Board of Directors:

1. In considering candidates for election to the Board, the Committee will determine the incumbent directors whose terms expire at the upcoming annual meeting and who wish to continue their service on the Board. The Committee will also identify and evaluate new candidates for election to the Board for the purpose of filling vacancies.

The Committee will solicit recommendations for nominees from persons that the Committee believes are likely to be familiar with qualified candidates. These persons may include members of the Board and management of the Company. The Committee may also determine to engage a professional search firm to assist in identifying qualified candidates. Where such a search firm is engaged, the Committee shall set its fees and scope of engagement.

In making its selection, the Committee will also consider nominations made by stockholders in conformity with Section 8 of the Company's Bylaws. The Committee will evaluate candidates proposed by stockholders in conformity with Section 8 of the Company's Bylaws under the same criteria used to evaluate other candidates.

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2. As to all incumbent and new candidates that the Committee believes merit consideration, the Committee will cause to be assembled information concerning the background and qualifications of the candidate, including information required to be disclosed in the Company's proxy statement under the rules of the SEC or any other regulatory agency or exchange or trading system on which the Company's securities are listed, and any relationship between the candidate and the person or persons recommending the candidate;

determine if the candidate satisfies the qualifications required by the Company's Corporate Governance Guidelines of candidates for election as director as set forth under "Corporate Governance Guidelines" above;

determine if the candidate possesses qualities, experience or skills that the Committee has determined to be desirable;

consider the contribution that the candidate can be expected to make to the overall functioning of the Board;

consider the candidate's capacity to be an effective director in light of the time required by the candidate's primary occupation and service on other boards;

consider the extent to which the membership of the candidate on the Board will promote diversity among the directors; and

consider, with respect to an incumbent director, whether the director satisfactorily performed his or her duties as director during the preceding term, including attendance and participation at Board and Committee meetings, and other contributions as a director.

3. In its discretion, the Committee may designate one or more of its members (or the entire Committee) to interview any proposed candidate.

4. Based on all available information and relevant considerations, the Committee will recommend to the full Board for nomination those candidates who, in the view of the Committee, are most suited for membership on the Board.

5. The Committee shall maintain appropriate records regarding its process of identifying and evaluating candidates for election to the Board.

As indicated above, the Corporate Governance and Nominating Committee will consider candidates for director recommended by stockholders of the Company. The procedures for submitting stockholder recommendations are explained below under "Stockholder Proposals" on page 49.

**Stock Ownership Guidelines**

The Corporate Governance Guidelines provide that after five years of service as a non-employee director, such individuals are expected to continuously own a minimum of 10,000 shares of SYSCO common stock. All of the current directors other than Messrs. Cassaday and Hafner beneficially held the requisite number of shares as of September 13, 2005. Mr. Cassaday has served on the Board for less than one year and Mr. Hafner has served on the Board for less than two years. Stock ownership guidelines applicable to executive officers are described on page 20.

**Table of Contents****EXECUTIVE OFFICERS**

The following persons currently serve as executive officers of SYSCO. Each person listed below has served as an officer of SYSCO and/or its subsidiaries for at least the past five years.

<b>Name</b>	<b>Title</b>	<b>Served in Position Since</b>	<b>Age</b>
Larry J. Accardi*	Executive Vice President, Contract Sales and President, Specialty Distribution Companies	2002 2005	56
Kenneth J. Carrig	Executive Vice President and Chief Administrative Officer	2005	48
Robert J. Davis	Senior Vice President, Contract Sales	2005	47
Kirk G. Drummond	Senior Vice President and Chief Information Officer	2005	50
G. Mitchell Elmer	Vice President, Controller and Chief Accounting Officer	2000 2005	46
James C. Graham	Senior Vice President, Foodservice Operations	2000	55
Michael W. Green	Senior Vice President, Foodservice Operations	2004	46
William Holden	Senior Vice President, Foodservice Operations	2003	60
James E. Lankford	Senior Vice President, Foodservice Operations	2000	52
Michael C. Nichols	Vice President, General Counsel and Corporate Secretary	1999 2002	53
Larry G. Pulliam	Executive Vice President, Merchandising Services	2005	49
Diane D. Sanders	Senior Vice President of Finance and Treasurer	2004 1994	56
Richard J. Schnieders*	Chairman, Chief Executive Officer and President	2003 2005	57
Stephen F. Smith	Senior Vice President, Foodservice Operations	2002	55
Bruce L. Soltis	Senior Vice President, Canadian Foodservice Operations	2002	60
Kenneth F. Spitler*	Executive Vice President; President of North American Foodservice Operations	2003 2005	56
John K. Stubblefield, Jr.*	Executive Vice President, Finance and Chief Financial Officer	2000 2005	59

\* Named Executive Officer



**Table of Contents****STOCK OWNERSHIP**

The following table sets forth certain information with respect to the beneficial ownership of Company Common Stock, as of September 13, 2005, by (i) each director, (ii) each Named Executive Officer (as hereinafter defined), and (iii) all directors and executive officers as a group. To our knowledge, no person or group beneficially owns 5% or more of our Common Stock. Unless otherwise indicated, each stockholder identified in the table has sole voting and investment power with respect to his or her shares.

	<b>Shares of Common Stock Owned Directly</b>	<b>Shares of Common Stock Owned Indirectly</b>	<b>Shares of Common Stock Underlying Options(1)</b>	<b>Total Shares of Common Stock Beneficially Owned</b>	<b>Percent of Outstanding Shares(2)</b>
Larry J. Accardi	172,142		268,000	440,142	*
Colin G. Campbell	14,561	2,000(7)	56,000	72,561	*
John M. Cassaday	4,000	3,500(8)	1,600	9,100	*
Judith B. Craven	32,327		24,000	56,327	*
Jonathan Golden	29,857	18,500(8)	56,000	104,357	*
Joseph A. Hafner, Jr.	5,268		4,800	10,068	*
Thomas E. Lankford(9)	282,705	115,190(9)	304,800(9)	702,695	*
Richard G. Merrill	26,388		64,000	90,388	*
Richard J. Schmieders	328,321	61,604(7)	292,000	681,925	*
Phyllis S. Sewell	22,332		56,000	78,332	*
Kenneth F. Spitler	88,911	63,062(10)	229,000	380,973	*
John K. Stubblefield, Jr.	101,984		284,000	385,984	*
Richard G. Tilghman	10,801	1,957(7)	9,600	22,358	*
Jackie M. Ward	11,785		16,000	27,785	*
All Directors and Executive Officers as a Group (26 Persons)	2,381,123(3)(6)	179,857(4)	2,795,059(5)	5,356,039(3)(4)(5)(6)	*

(\* ) Less than 1% of outstanding shares.

(1) Includes shares of Common Stock underlying options that are presently exercisable or will become exercisable within 60 days after the date of this proxy statement.

(2) Applicable percentage ownership at September 13, 2005 is based on 626,300,461 shares of Common Stock outstanding, adjusted in the case of certain options. Shares of Common Stock subject to options that are presently exercisable or will become exercisable within 60 days after the date of this proxy statement are

deemed outstanding for computing the percentage ownership of the person holding such options, but are not deemed outstanding for computing the percentage ownership of any other persons.

- (3) Includes an aggregate of 1,532,446 shares directly owned by the current executive officers other than the Named Executive Officers.
- (4) Includes an aggregate of 29,234 shares owned by the spouses and/or dependent children of current executive officers other than the Named Executive Officers.
- (5) Includes an aggregate of 1,434,059 shares of Common Stock underlying options that are presently exercisable or will become exercisable within 60 days after the date of this proxy statement held by current executive officers other than the Named Executive Officers.
- (6) Does not include an aggregate of 4,011 shares that have been elected to be received by the non-employee directors in lieu of retainer fees during the first half of calendar 2005, and 2,003 matching shares. Pursuant to the Non-Employee Directors Stock Plan, these shares will be issued on December 31, 2005 or within 60 days after a non-employee director ceases to be a director, whichever occurs first.
- (7) These shares are held by the spouse of the director or executive officer.
- (8) These shares are held by a family trust or corporation affiliated with the director.

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- (9) Mr. Lankford resigned as Chief Operating Officer and President and retired from the Board on July 2, 2005. The total number of shares owned indirectly by Mr. Lankford includes 56,096 shares held by his spouse, 7,728 shares held by his children, and 51,366 shares held by a family limited partnership. Of the total number of options held by Mr. Lankford, 89,402 of them are held by a family limited partnership.
- (10) The total number of shares owned indirectly by Mr. Spitler includes 190 shares held by his children and 62,872 shares held by a family limited partnership.

**SECTION 16(a) BENEFICIAL OWNERSHIP REPORTING COMPLIANCE**

Pursuant to Section 16(a) of the Securities Exchange Act of 1934 and the rules issued thereunder, our executive officers and directors and any persons holding more than ten percent (10%) of our Common Stock are required to file with the Securities and Exchange Commission and the New York Stock Exchange reports of initial ownership of our Common Stock and changes in ownership of such Common Stock. To our knowledge, no person beneficially owns more than 10% of our Common Stock. Copies of the Section 16 reports filed by our directors and executive officers are required to be furnished to us. Based solely on our review of the copies of the reports furnished to us, or written representations that no reports were required, we believe that, during fiscal 2005, all of our executive officers and directors complied with the Section 16(a) requirements, with the following exception:

Bruce L Soltis inadvertently filed a late Form 4 in connection with the exercise of options on December 15, 2004. The Form 4 was filed on May 2, 2005.

**EQUITY COMPENSATION PLAN INFORMATION**

The following table sets forth certain information regarding equity compensation plans as of July 2, 2005.

<b>Plan Category</b>	<b>Number of Securities to be Issued Upon Exercise of Outstanding Options, Warrants and Rights (a)</b>	<b>Weighted-Average Exercise Price of Outstanding Options, Warrants and Rights (b)</b>	<b>Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (Excluding Securities Reflected in Column (a)) (c)</b>
Equity compensation plans approved by security holders	65,743,065(1)(2)	\$ 27.87	34,608,660(3)(4)
Equity compensation plans not approved by security holders	-0-	-0-	-0-
<b>Total</b>	<b>65,743,065(1)(2)</b>	<b>\$ 27.87</b>	<b>34,608,660(3)(4)</b>

(1) Does not include 220,315 shares of Common Stock subject to options that were assumed in connection with our acquisition of Guest Supply, Inc. in March 2001. These options have a weighted average exercise price per share of \$13.26.

(2)

Does not give effect to options to purchase approximately 4,827,500 shares of Common Stock granted in September 2005 under our 2004 Stock Option Plan at an exercise price per share of \$33.01.

- (3) Includes 23,392,000 shares of Common Stock issuable pursuant to our 2004 Stock Option Plan, 135,898 shares issuable pursuant to our Non-Employee Directors Stock Plan, 4,345,650 shares issuable under our 2000 Management Incentive Plan, and 6,735,112 shares issuable pursuant to our Employees Stock Purchase Plan as of July 2, 2005. Does not reflect the issuance of options to purchase approximately 4,827,500 shares of Common Stock in September 2005 pursuant to our 2004 Stock Option Plan, the issuance of 617,697 shares in August 2005 pursuant to the 2000 Management Incentive Plan, or the issuance of 410,375 shares in July 2005 pursuant to the 1974 Employees Stock Purchase Plan.

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- (4) As of September 13, 2005, a total of 68,821,227 options remained outstanding under all of the Company's option plans. These options have a weighted average exercise price of \$28.31 and an average remaining term of 5.22 years. If the 2005 Management Incentive Plan and 2005 Non-Employee Directors Stock Plan are approved by stockholders, no additional shares will be issued under the current management incentive plan (other than pursuant to the fiscal 2006 management incentive program) and no additional awards will be granted under the current non-employee directors stock plan. The remaining pool of available shares under the Company's option plans includes approximately 18,564,500 shares authorized under the 2004 Stock Option Plan, and will also include 550,000 shares under the 2005 Non-Employee Directors Stock Plan, if approved by stockholders. Additionally, there will be 2,800,000 shares available for issuance under the 2005 Management Incentive Plan, if approved by stockholders, and 1,200,000 shares remaining available for issuance under the 2000 Management Incentive Plan. There are also 6,324,737 shares remaining available for issuance under the 1974 Employees Stock Purchase Plan.

**Report of the Compensation and Stock Option Committee**

This report documents the components of SYSCO's compensation programs for its executive officers and describes the basis on which fiscal 2005 compensation determinations were made with respect to the executive officers of SYSCO, including Mr. Schnieders, who has served as Chief Executive Officer since January 1, 2003. All fiscal 2005 compensation decisions with respect to base salaries, annual incentive compensation and option grants under stock option plans for our executive officers, including the CEO, were made by the Compensation and Stock Option Committee.

*Overall Executive Compensation Philosophy*

Since SYSCO became a publicly held corporation in 1970, we have directly linked the compensation of executive officers to SYSCO's performance. Specifically, the Committee has tied the level of SYSCO's executive compensation to increases in SYSCO's earnings per share, return on shareholders' equity and operating company performance. We have historically accomplished this through the following means:

A pay-for-performance orientation, with respect to compensation other than base salary, based upon a combination of SYSCO performance and operating company performance for corporate officers, and operating company performance for operating company senior management;

A significant portion of total cash compensation is at risk, i.e., linked to Company performance;

Base salaries generally at or below the 25th percentile of the range of base salaries payable to corporate officers of certain surveyed industrial corporations who have job content and/or responsibilities comparable to those of SYSCO's corporate officers;

Potentially significant annual incentive bonuses under SYSCO's management incentive plan;

Long-term incentives primarily in the form of stock options; and

The addition, in fiscal 2005, of a long-term incentive cash plan for MIP participants and a supplemental bonus plan for the CEO.

The factors and criteria upon which the determination of the fiscal 2005 compensation of the Chief Executive Officer were based were the same as those discussed below with respect to all executive officers, except as otherwise described below with respect to SYSCO's senior vice presidents of foodservice operations, and as described below with respect to the CEO's supplemental bonus plan.

In fiscal 2005, Mr. Schnieders earned a total compensation package equal to \$4,786,090, exclusive of perquisites, which were valued at less than \$50,000. This compensation amount included (a) salary of \$981,250; (b) base bonus of \$2,059,050 (40% of which was paid in restricted stock, 20% of which was deferred, and 40% of which was paid in cash); (c) additional restricted matching shares valued at \$411,810; (d) additional cash of \$152,246 to minimize the tax effect of the additional matching shares received; (e) a deferred match of \$205,905; (f) a supplemental cash bonus

of \$370,629; and (g) 85,000 options with a Black-

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Scholes grant date present value of \$605,200. Further information regarding these components is included below as well as in the tables that follow this report.

*Base Salaries*

We have established base salaries of our executive officers in the range of compensation payable to executive officers of U.S. industrial corporations without reference to specific SYSCO performance criteria. We reexamine this range of compensation from time to time through a survey of compensation practices by an independent compensation consultant across a broad cross-section of U.S. industrial corporations. The survey sample does not necessarily include those companies in the peer group included in the performance graph on page 28 due to the differing size, management responsibilities and organizational structures of those corporations relative to SYSCO. We last reviewed base salaries for the executive officers on May 12, 2005, and increases were made effective June 1, 2005. At that time, Mr. Schnieders' annual base salary was increased approximately 7.7% from \$975,000 to \$1,050,000. It has been our consistent practice to maintain the Chief Executive Officer's base salary at or below the 25th percentile of the range of base salaries payable to chief executive officers of the surveyed industrial corporations who have chief executive officers with job content and/or responsibilities comparable to those of SYSCO's Chief Executive Officer.

*Incentive Compensation**Management Incentive Bonus*

SYSCO provides annual incentive compensation to all executive officers through the SYSCO Corporation Management Incentive Plan (the "MIP"). The current MIP was approved by stockholders in November 2000. A new Management Incentive Plan is being presented to stockholders for their approval at the 2005 Annual Meeting. If approved, the new proposed plan would be effective for fiscal year 2007 bonuses. A description of the new proposed plan begins on page 31. Participants in the MIP include all of SYSCO's corporate officers, including the executive officers, and senior management, generally the presidents and executive vice presidents, of SYSCO's operating companies. The MIP is designed to offer opportunities for compensation that is tied directly to our performance. In addition, the MIP is designed to foster significant equity ownership in SYSCO by the executive officers and all other participants in the MIP. MIP bonuses earned during the fiscal year are paid during the first quarter of the following fiscal year.

For executive officers other than senior vice presidents of foodservice operations, incentive bonuses earned in fiscal 2005 and paid in fiscal 2006 were calculated under the MIP in two parts. The first part was based on the overall performance of SYSCO and was based upon the percentage increase in earnings per share and the return on shareholders' equity. The MIP utilized a matrix based on these two factors to determine award levels, resulting in an award of 100.1% of base salary to each executive officer participating in this portion of the MIP. The second portion of the fiscal 2005 incentive bonus under the MIP for executive officers was based upon the number of SYSCO operating companies that achieved a target return on capital. This portion of the incentive bonus is paid only when the operating companies achieving the goals, in the aggregate, represent at least 50% of the total capital of all of SYSCO's operating companies, which was the case during fiscal 2005, resulting in an award of 96.0% of base salary to each executive officer participating in this portion of the MIP.

For senior vice presidents of foodservice operations, a portion of their bonus was based upon the two-part calculation set forth above and a portion was based upon the aggregate financial results of those operating subsidiaries or divisions for which they were responsible, considered as one company. This portion is based upon the interplay between the aggregate percentage increase in pretax earnings and operating pretax earnings of their supervised operations and the aggregate return on capital of their supervised operations, adjusted in certain instances for operating companies that are involved in SYSCO's facility expansion ( "fold-out" ) program.

For fiscal 2005, Mr. Schnieders earned a total base bonus of \$2,059,050 under the MIP. Of this amount, \$1,051,050 was based on earnings per share and return on shareholders' equity, and \$1,008,000 was based on the number of operating companies achieving a target return on capital.

**Table of Contents***Supplemental Performance Based Bonus Plan and Agreement*

In February 2005, the Company and Mr. Schnieders entered into a Supplemental Performance Based Bonus Agreement under the Supplemental Performance Based Bonus Plan approved by the Committee in November 2004. Pursuant to this agreement, Mr. Schnieders' bonus for fiscal 2005 was subject to increase or decrease by up to 25% depending upon whether he exceeded or failed to meet certain pre-established performance criteria in the areas of long-term strategy, financial performance, corporate governance, human capital and risk management/ mitigation. Supplemental bonus amounts paid under this plan do not qualify as performance based compensation under Section 162(m) of the Code. In approving the plan, the Committee concluded that the importance of aligning a portion of Mr. Schnieders' compensation with additional performance goals not taken into account under the MIP, combined with the desirability of preserving a certain level of Committee discretion over the total amount of Mr. Schnieders' bonus payments, outweighed the potential cost to the Company that could result from the non-deductibility of any compensation paid under such plan.

In August 2005, the Committee determined that Mr. Schnieders' overall performance in these areas for fiscal 2005 exceeded expectations and they set the level of his supplemental bonus at 18% of his base bonus as calculated under the MIP. The amount of the supplemental bonus earned by Mr. Schnieders in fiscal 2005 and paid in fiscal 2006 was \$370,629.

*Stock Election and Matching Grant*

The current MIP provides that participants may voluntarily elect to receive up to 40% of their annual incentive bonus in the form of SYSCO Common Stock, based on a per-share price equal to the closing price on the New York Stock Exchange of SYSCO Common Stock on the last trading day of the fiscal year for which the MIP bonus is calculated. If such election is made, the participant is awarded additional matching shares on the basis of one additional share for each two shares received in accordance with the foregoing election.

Under the current MIP, participants who elect to receive a portion of their bonus in Common Stock in lieu of cash and receive additional matching shares are entitled to receive additional cash equal to the product of:

the value of such matching shares received by the participant (based on the closing price of such shares on the last trading day of the fiscal year), and

the effective tax rate applicable to SYSCO.

Restricted shares issued under the current MIP are not transferable by the recipient for two years following receipt and are subject to certain repurchase rights on the part of SYSCO in the event of termination of employment other than by normal retirement or disability.

Mr. Schnieders elected to receive 40% of his fiscal 2005 base bonus in SYSCO Common Stock. In connection with this election, Mr. Schnieders received 22,720 shares valued at \$823,600 in lieu of cash and a matching grant of 11,360 shares valued at \$411,800. He also received a cash payment of \$152,246 to minimize the tax effect of the matching grant.

Under the new proposed plan, participants will receive an automatic 28% stock match and will no longer be able to elect to receive a portion of their bonus in SYSCO Common Stock. No tax minimization payments will be made under the new proposed plan.

*Deferred Compensation Election*

MIP participants may defer up to 40% of their annual incentive bonus (without considering any election to receive a portion of the bonus in stock) under the current Executive Deferred Compensation Plan ( EDCP ). MIP participants may also elect to defer all or a portion of their salary under the EDCP. MIP participants who defer may choose from a variety of investment options, including Moody's Average Corporate Bond Yield plus 1%, with respect to amounts deferred. Amounts deferred under the EDCP are

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generally payable upon death, disability, retirement or termination of employment pursuant to distribution elections made under the EDCP.

For deferrals of up to 20% of the annual incentive bonus, the EDCP currently provides for SYSCO to credit the participant's deferred compensation account in an amount equal to 50% of the amount deferred. This matching credit and cumulative earnings, which accrue interest at a rate equal to Moody's Average Corporate Bond Yield plus 1%, vest upon the earliest to occur of:

the 10th anniversary of the date the matching payment is credited to the participant's account;

the participant's reaching age 60;

the death or permanent disability of the participant; or

a change in control of SYSCO.

Mr. Schnieders deferred 20% of his fiscal 2005 base bonus (\$411,810) and received a matching deferred compensation account credit of \$205,905.

*Stock Options*

It has been the general practice of the Committee to consider issuing options on a performance basis; that is, only in years when participants in the MIP have earned a bonus under the MIP. It is the current intention of the Committee to continue this practice, although it is not required by the terms of the stock option plan. The Committee has not historically considered the current number of outstanding options held by an individual when making its grant decisions.

*2000 Stock Incentive Plan.* The 2000 Stock Incentive Plan was replaced by the 2004 Stock Option Plan in November 2004. Although the 2000 plan authorized the grant of a variety of awards such as restricted shares and stock appreciation rights, no awards other than stock options were granted under the plan. All outstanding options under the 2000 plan will vest and become fully exercisable in the event of a change of control.

In September 2004, a total of 8,515,000 options were granted to approximately 4,500 employees, including the executive officers, under the 2000 Stock Incentive Plan. Of the total options granted, an aggregate of 481,000 options were granted to the executive officers listed on page 12. Options granted to the five Named Executive Officers represented approximately 3% of all options granted. All of the options granted in September 2004 have an exercise price of \$32.19, a seven-year term and, except for options granted to first-time MIP participants, vest ratably over a five-year period. Options granted to first-time MIP participants vest ratably over a three-year period. As of November 2004, there were no additional options or other securities available for grant under the 2000 Stock Incentive Plan.

*2004 Stock Option Plan.* The 2004 plan was approved by stockholders and became effective in November 2004. The Committee administers the 2004 plan which provides for the grant of stock options only; restricted stock is not authorized to be issued under the 2004 plan. The 2004 plan limits the number of shares that may be issued in any given year to 1.5% of common shares outstanding on the first day of the fiscal year in which grants are made. The 2004 plan also limits the number of options that may be granted to any named executive officer in any given year to 200,000. The 2004 plan prohibits repricing, discounted stock options, reload stock options and material changes without stockholder approval. Options will have a maximum term of seven years and will be subject to a minimum ratable vesting period of three years. Shares which are cancelled or forfeited from prior plans will not be again available for grant under the Plan. In the event of a change of control, the 2004 plan provides that all outstanding options would vest and become fully exercisable.

In May 2005, the Committee granted a total of 108,000 options under the 2004 plan to 20 key operating company employees. These options have a weighted average exercise price of \$37.06, vest ratably over a five-year period on the anniversary of the date of grant and have a seven-year term. In September 2005, approximately 4,827,500 options were granted to approximately 1,200 employees, including the executive officers, under the 2004 plan. Of the total options granted in September 2005, an aggregate of 876,000 options



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were granted to the executive officers listed on page 12. Options granted to the Named Executive Officers (other than Mr. Lankford who did not receive any options in September 2005) represented approximately 7% of all options granted. All of the options granted in September 2005 have an exercise price of \$33.01, a seven-year term and, except for options granted to first-time MIP participants, vest ratably over a five-year period. Options granted to first-time MIP participants vest ratably over a three-year period. As of September 13, 2005, there were approximately 18,564,500 shares remaining available for grant under the 2004 Stock Option Plan.

In September 2004 (fiscal 2005), Mr. Schnieders received an option grant under the 2000 plan to purchase 85,000 shares at an exercise price of \$32.19 per share. These options have a Black-Scholes grant date present value of \$605,200. In September 2005 (fiscal 2006), he received a grant under the 2004 plan to purchase 140,000 shares at an exercise price of \$33.01 per share. These options have a Black-Scholes grant date present value of \$1,079,400.

*Long-Term Incentive Cash Plan*

In September 2004, the Committee recommended and the Board approved the SYSCO Corporation 2004 Long-Term Incentive Cash Plan (the LTICP) pursuant to which the executive officers and other key employees have the opportunity to receive cash incentive payments based on a performance measurement period of at least three years. At the beginning of each performance period, participants may be granted a number of performance units, the value of which is established at that time by the Committee. A participant's cash incentive payments under the LTICP are based on the number of performance units granted to the participant, the value of the participant's performance units, and a percentage (established by the Committee) that correlates to the level of performance that is achieved under performance criteria set by the Committee. The Committee believes that the design of the LTICP focuses the Company's executive officers and other key employees on SYSCO's long-term financial success. The LTICP also reduces the use of option grants and their dilutive effect.

The performance criteria set by the Committee for the three-year period ending June 30, 2007 are based on the participant's supervised operations with respect to the following: (i) for operating company participants, the average increase in the supervised operations' operating pre-tax earnings over the performance period, and (ii) for corporate participants, the average increase in SYSCO's net after-tax earnings per share over the performance period. The performance criteria set by the Committee for the three-year period ending June 28, 2008 are based on the participant's supervised operations with respect to the following: (i) for operating company participants, the average increase in the supervised operations' operating pre-tax earnings and sales growth (sales are adjusted for inflation and deflation) over the performance period, and (ii) for corporate participants, the average increase in SYSCO's net after-tax earnings per share and sales growth (sales are adjusted for inflation and deflation) over the performance period.

In September 2004 (fiscal 2005), the Committee approved grants of performance units under the Plan that could result in a maximum aggregate payout after the end of the three-year performance period that includes fiscal years 2005 through 2007 of \$23,454,375. Mr. Schnieders' grant with respect to the 2005 through 2007 performance period has a maximum potential value of \$4,147,500.

In September 2005 (fiscal 2006), the Committee approved grants of performance units under the Plan that could result in a maximum aggregate payout after the end of the three-year performance period that includes fiscal years 2006 through 2008 of \$24,808,875. Mr. Schnieders' grant with respect to the 2006 through 2008 performance period has a maximum potential value of \$5,880,000.

*Other Benefits*

Executive officers also participate in SYSCO's regular employee benefit programs, which include a pension plan, a 401(k) plan, group medical and dental coverage, group life insurance and other group benefit plans. Executive officers are also provided with additional life insurance benefits, as well as long-term disability coverage. Further details with respect to SYSCO's tax-qualified pension plan are provided on pages 26 and 27.

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In addition, MIP participants are provided with a Supplemental Executive Retirement Plan (the "SERP") which is currently designed, generally, to provide post-retirement annual payments equal to 50%, subject to certain years of service and age requirements, of a qualified participant's final average annual compensation, in combination with all SYSCO and other employer-provided qualified retirement plan benefits and Social Security payments.

MIP participants, including the executive officers, are encouraged to have their spouses accompany them at dinners and other functions in connection with certain business meetings and other corporate sponsored events, and SYSCO pays, either directly or by reimbursement, all expenses associated with their travel to and attendance at these business-related functions. The company owns fractional interests in private aircraft which are made available to executive officers and other employees for business use. Spouses may from time to time receive flights on these aircraft in connection with travel to a business-related function.

Executive officers, as well as many other employees who travel for business purposes, are reimbursed for their membership in travel clubs and may receive travel credits that may be used for personal travel. Officers, as well as many other employees, are provided with cell phones and PDA devices which are paid for by the Company and which are intended primarily for business use.

*Stock Ownership Guidelines for Executive Officers*

The Company's Corporate Governance Guidelines provide that after three years of service as an executive officer, such individuals are expected to continuously own a minimum number of shares equal in value to 200% of their base salary. All of the executive officers listed on page 12 who have served as executive officers for at least three years met this requirement as of September 13, 2005.

*Severance Agreements*

In May 2004, the Committee approved Severance Agreements for Messrs. Schnieders, Lankford, Stubblefield, Accardi and Spitler. The Severance Agreements are described on page 25.

*Income Deduction Limitations*

Section 162(m) of the Internal Revenue Code of 1986, as amended (the "Code"), generally sets a limit of \$1 million on the amount of compensation (other than certain performance-based compensation that complies with the requirements of Section 162(m)) that SYSCO may deduct for federal income tax purposes in any given year with respect to the compensation of each of the Named Executive Officers. The Committee has determined, after reviewing the effect of Section 162(m), that our general policy will be to structure the performance-based compensation arrangements (other than the Supplemental Performance-Based Bonus Plan) for such Named Executive Officers to satisfy Section 162(m)'s conditions for deductibility, to the extent feasible and taking into account all relevant considerations. However, the Committee also believes that the Company needs flexibility to meet its incentive and retention objectives, even if the Company may not deduct all of the compensation paid to the Named Executive Officers.

COMPENSATION AND STOCK OPTION  
COMMITTEE

Colin G. Campbell  
Richard G. Merrill, Chairman  
Phyllis S. Sewell  
Richard G. Tilghman  
Jackie M. Ward

**Table of Contents****EXECUTIVE COMPENSATION****Summary Compensation Table**

The following table sets forth information with respect to the Chief Executive Officer and the other four most highly compensated executive officers of SYSCO and its subsidiaries employed at the end of fiscal 2005 whose total annual salary and bonus exceeded \$100,000 for the fiscal year ended July 2, 2005 (the Named Executive Officers):

Name And Principal Position	Fiscal Year	Annual Compensation			Long-Term Compensation		
		Salary(\$)	Bonus(\$) (1)	Other Annual Compensation(\$) (2)	Restricted	Securities	All Other Compensation(\$) (6)
					Stock Awards(\$) (3)	Options(#) (4)	
Richard J. Schnieders Chairman, Chief Executive Officer and President	2005	\$ 981,250	\$ 1,758,335		\$ 1,235,400	85,000	\$ 270,784
	2004	912,500	1,887,835		1,673,080	90,000	370,544
	2003	800,000	1,477,824		1,310,690	100,000	289,977
Thomas E. Lankford(5)	2005	\$ 2,227,083	\$ 4,775,519		\$ 882,434	74,000	\$ 1,127,094
	2004	662,500	1,403,760		1,244,100	90,000	297,391
	2003	562,500	1,043,182		925,181	75,000	221,699
John K. Stubblefield, Jr. Executive Vice President, Finance and Chief Financial Officer	2005	\$ 547,083	\$ 753,311		\$ 670,661	40,000	\$ 175,388
	2004	532,500	1,055,245		935,215	70,000	246,735
	2003	497,500	904,076		801,839	75,000	205,796
Larry J. Accardi Executive Vice President, Contract Sales and President, Specialty Distribution Companies	2005	\$ 526,250	\$ 713,672		\$ 635,354	40,000	\$ 133,710
	2004	512,500	1,016,548		900,868	70,000	186,881
	2003	487,500	869,314		770,989	75,000	154,562
Kenneth F. Spitler Executive Vice President; President of North American Foodservice Operations	2005	\$ 526,250	\$ 713,672		\$ 635,354	40,000	\$ 148,938
	2004	512,500	1,016,548		900,868	70,000	204,776
	2003	475,000	869,314		770,989	75,000	172,094

- (1) Pursuant to the current Management Incentive Plan and Executive Deferred Compensation Plan, each of the Named Executive Officers is eligible to voluntarily elect to receive up to 40% of his bonus in restricted stock and to defer up to 40% (calculated prior to any election to receive stock). These elections, if made, entitle the participant to receive additional stock and cash pursuant to the match features of these plans as follows: (a) one additional share for each two shares elected to be received in lieu of cash, (b) additional cash to minimize the tax effect of matching shares received in lieu of cash, and (c) for deferrals of up to 20%, a credit to the participant's deferred compensation account in an amount equal to 50% of the amount deferred. The terms of these plans are described in more detail in the Report of the Compensation and Stock Option Committee beginning on page 15.

The amounts reported in the Bonus column include amounts paid in cash and amounts deferred by each of the Named Executive Officers, as well as supplemental bonus amounts earned by Mr. Schnieders and certain severance payments paid to Mr. Lankford (see footnote 5). The Bonus column also includes cash received to minimize the tax effect of any additional shares received pursuant to the match

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feature of the current Management Incentive Plan. The components of the amounts reported in the **Bonus** column for each Named Executive Officer in fiscal 2005 are set forth below:

<b>Name</b>	<b>Cash Portion of Base Bonus</b>	<b>Cash Tax Effect</b>	<b>Deferred Amount</b>	<b>Supplemental Bonus</b>	<b>Severance Payment(5)</b>	<b>Bonus Column Amount</b>
Schnieders	\$ 823,650	\$ 152,246	\$ 411,810	\$ 370,629		\$ 1,758,335
Lankford	294,166	108,747	588,300		\$ 3,784,306	4,775,519
Stubblefield	223,555	82,648	447,108			753,311
Accardi	423,586	78,298	211,788			713,672
Spitler	211,798	78,298	423,576			713,672

The value of any shares elected to be received in lieu of cash and any matching shares is included in the **Restricted Stock Awards** column and additional information about such shares is included in footnote 3 below. Any amounts credited pursuant to the deferred match feature of the current EDCP are included in the **All Other Compensation** column and described in footnote 6 below.

- (2) Does not include perquisites and other personal benefits because they did not exceed for any individual \$50,000 in the aggregate. See **Other Benefits** in the Report of the Compensation and Stock Option Committee.
- (3) Each of the Named Executive Officers elected to receive a portion of his bonus in shares of restricted Common Stock pursuant to the current Management Incentive Plan. Pursuant to the Management Incentive Plan, the Company made a matching grant of one additional share for each two shares received pursuant to such election. The amount presented in the **Restricted Stock Awards** column is determined by multiplying the number of shares earned during the fiscal year by the closing price (\$36.25) of our Common Stock on the New York Stock Exchange on the last trading day of such fiscal year.

The number of restricted shares earned by the Named Executive Officers in fiscal 2005 and issued in fiscal 2006 was as follows:

Mr. Schnieders 34,080 shares (22,720 elected shares and 11,360 match shares);

Mr. Lankford 24,343 shares (16,229 elected shares and 8,114 match shares);

Mr. Stubblefield 18,501 shares (12,334 elected shares and 6,167 match shares);

Mr. Accardi 17,527 shares (11,685 elected shares and 5,842 match shares); and

Mr. Spitler 17,527 shares (11,685 elected shares and 5,842 match shares).

The aggregate number and dollar value (computed using the closing price of our Common Stock on July 1, 2005 (\$36.25)) of all restricted shares held as of the last day of fiscal 2005 by the Named Executive Officers were as follows:

Mr. Schnieders 92,432 shares at \$3,350,660;

Mr. Lankford 67,059 shares at \$2,430,889;

Mr. Stubblefield 54,009 shares at \$1,957,826;

Mr. Accardi 51,978 shares at \$1,884,203; and

Mr. Spitler 51,978 shares at \$1,884,203.

The restricted shares are not transferable by the recipient for two years following receipt and are subject to certain repurchase rights on the part of SYSCO in the event of termination of employment other than by normal retirement or disability. The recipient receives dividends on the shares during the two-year restricted period.

- (4) Information regarding stock options granted to the Named Executive Officers in fiscal 2005, including the Black-Scholes grant date present value, is included below under Stock Option Grants.
- (5) Mr. Lankford resigned as President and Chief Operating Officer effective July 2, 2005. The amounts reported in the Salary and Bonus columns for fiscal 2005 include \$1,500,000 and \$3,784,306,

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respectively. These severance amounts were paid on October 1, 2005 pursuant to the separation agreement entered into between the Company and Mr. Lankford in connection with his retirement.

(6) The amounts reported in the All Other Compensation column include the following:

a SYSCO match equal to 50% of the first 20% of the annual incentive bonus which each individual elected to defer under our Executive Deferred Compensation Plan;

the amount we paid for term life insurance coverage for each individual;

the amount we paid for 401(k) Plan matching contributions during the fiscal year;

above-market interest credited to deferred compensation account balances as of June 30 of each fiscal year (above-market interest is the amount by which the interest actually earned on deferred account balances during the year exceeded the interest that would have been earned based on an interest rate equal to 120% of the applicable federal long-term rate as provided in Section 1274(d) of the Code on a compounded basis); and

the amount paid, payable or accrued with respect to the separation agreement entered into between the Company and Mr. Lankford in connection with his retirement (in addition to the amounts described in footnote 5 above but excluding amounts to be paid in the future under the SERP and EDCP as described on page 25).

Name	Fiscal Year	Deferred Match	Term Life Insurance	401(k) Contributions	Above-Market Interest	Severance Payments	All Other
							Compensation Total
Schnieders	2005	\$ 205,905	\$ 907	\$ 6,625	\$ 57,347	n/a	\$ 270,784
	2004	278,850	871	6,000	84,823	n/a	370,544
	2003	218,450	835	3,750	66,942	n/a	289,977
Lankford	2005	147,075	907	6,938	58,784	\$ 913,390	1,127,094
	2004	207,350	871	6,063	83,107	n/a	297,391
	2003	154,200	835	3,938	62,726	n/a	221,699
Stubblefield	2005	111,777	907	6,500	56,204	n/a	175,388
	2004	155,870	868	6,000	83,997	n/a	246,735
	2003	133,640	797	5,500	65,859	n/a	205,796
Accardi	2005	105,894	907	n/a	26,909	n/a	133,710
	2004	150,150	854	n/a	35,877	n/a	186,881
	2003	128,500	800	n/a	25,262	n/a	154,562
Spitler	2005	105,894	907	6,500	35,637	n/a	148,938
	2004	150,150	854	6,000	47,772	n/a	204,776
	2003	128,500	766	5,500	37,328	n/a	172,094

**Stock Option Grants**

The following table provides information regarding stock option grants during fiscal 2005 to the Named Executive Officers. We have never granted any stock appreciation rights to executive officers.

**Option Grants in Fiscal 2005**

Percentage  
of

<b>Name</b>	<b>Number of Securities Underlying Options Granted(#)(1)</b>	<b>Total Options Granted to Employees in Fiscal 2005</b>	<b>Exercise or Base Price (\$/Share)</b>	<b>Expiration Date</b>	<b>Grant Date Present Value(\$)(2)</b>
Schnieders	85,000	0.99%	\$ 32.19	9/1/2011	\$ 605,200
Lankford	74,000	0.86%	32.19	9/1/2011	526,880
Stubblefield	40,000	0.46%	32.19	9/1/2011	284,800
Accardi	40,000	0.46%	32.19	9/1/2011	284,800
Spitler	40,000	0.46%	32.19	9/1/2011	284,800

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- (1) The options granted to the Named Executive Officers during fiscal 2005 vest 20% per year for five years on the anniversary date of grant.
- (2) We determined the hypothetical grant date present value for the options of \$7.12 per share using a modified Black-Scholes pricing model. In applying the model, we assumed a volatility of 22%, a 3.4% risk-free rate of return, a dividend yield at the date of grant of 1.45%, and a 5-year option term. We did not assume any option exercises or risk of forfeiture during the 5-year term. Had we done so, such assumptions could have reduced the reported grant date value. The actual value, if any, an executive may realize upon exercise of options will depend on the excess of the stock price over the exercise price on the date the option is exercised. Consequently, there is no assurance that the value realized, if any, will be at or near the value estimated by the modified Black-Scholes model.

**Stock Option Exercises and Fiscal Year-End Values**

The following table provides information with respect to aggregate option exercises in the last fiscal year and fiscal year-end option values for the Named Executive Officers.

**Aggregated Option Exercises in Fiscal 2005 and  
Fiscal Year-End Option Values**

Name	Shares		Number of Securities Underlying Unexercised Options at July 2, 2005(#)		Value Of Unexercised In-The-Money Options at July 2, 2005(\$)(2)	
	Acquired on Exercise(#)	Value Realized\$(1)	Exercisable	Unexercisable	Exercisable	Unexercisable
Schnieders	n/a	n/a	275,000	211,000	\$ 3,133,602	\$ 1,086,020
Lankford	13,912	\$ 393,744	290,000	185,000	4,365,638	942,260
Stubblefield	n/a	n/a	276,000	139,000	4,209,826	750,220
Accardi	13,524	\$ 366,593	260,000	139,000	3,763,576	750,220
Spitler	n/a	n/a	230,648	134,000	3,477,897	704,920

- (1) Computed based on the difference between the closing price of the Common Stock on the day of exercise and the exercise price.
- (2) Computed based on the difference between the closing price on July 1, 2005 and the exercise price.

**Long Term Incentive Plan**

The following table provides information regarding long-term incentive awards granted during fiscal 2005 to the Named Executive Officers under the 2004 Long-Term Incentive Cash Plan ( LTICP ).

**Long-Term Incentive Plans Awards in Last Fiscal Year**

Number of Shares, Units or Other	Performance or Other Period Until Maturation or	Estimated Future Payouts Under Non-Stock Price-Based Plans

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<b>Name</b>	<b>Rights(#)</b>	<b>Payout</b>	<b>Threshold(\$)</b>	<b>Target(\$)</b>	<b>Maximum(\$)</b>
Schnieders	79,000	7/4/04-6/30/07	\$ 1,382,500	\$ 2,765,000	\$ 4,147,500
Lankford	14,500	7/4/04-6/30/07	253,750	507,500	761,250
Stubblefield	8,500	7/4/04-6/30/07	148,750	297,500	446,250
Accardi	8,500	7/4/04-6/30/07	148,750	297,500	446,250
Spitler	8,500	7/4/04-6/30/07	148,750	297,500	446,250

A participant's cash incentive payments under the LTICP are based on the number of performance units granted to the participant, the value of the participant's performance units, and a percentage (established by the Compensation and Stock Option Committee) that correlates to the level of performance that is achieved

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under performance criteria set by the Committee. The performance criteria set by the Committee for the Named Executive Officers for the three-year period ending June 30, 2007 are based on the average increase in SYSCO's net after-tax earnings per share over the performance period.

**Severance Agreements**

In May 2004, the Compensation and Stock Option Committee approved, and the Board of Directors ratified, Severance Agreements for the benefit of Messrs. Schnieders, Lankford, Stubblefield, Accardi and Spitler.

*Termination For Cause.* Under the terms of these agreements, if the executive officer's employment is terminated by reason of death or permanent disability, by the Company for cause, or by the executive officer without good reason, he is entitled to receive (i) a payment equal to his base salary through the date of death or termination to the extent not already paid, (ii) his actual earned bonus for any period not already paid, (iii) accrued but unused vacation, and (iv) reimbursable business expenses.

*Termination Without Cause or For Good Reason.* If the executive officer's employment is terminated by the Company without cause, or by the executive officer for good reason (as those terms are defined in the Severance Agreements), the executive officer will be entitled to receive (i) accrued base salary through the date of termination, (ii) his actual earned bonus for any period not already paid, (iii) accrued but unused vacation, (iv) reimbursable business expenses, and (v) an amount, payable in 24 equal monthly installments, equal to the sum of two years' base salary plus two years' MIP bonus before any elective deferrals (based on his average MIP bonus for the last five years). In addition, if the termination occurs prior to the end of a year as to which the Company determines that the executive officer would have earned a bonus but for the termination, the executive officer shall receive a pro rata share of the cash portion of the bonus he would have earned (excluding deferred or matching amounts). If the termination occurs before age 60, the executive officer will be deemed to be age 60 under the SERP, which will result in the executive becoming 50% vested in his accrued SERP benefit. The executive officer will also receive a lump sum payment equal to 100% of his unvested and vested benefits under the EDCP, including deferrals and company matches thereon.

*Excise Taxes.* The Severance Agreements also provide that if the executive officer incurs excise tax due to the application of Section 280G of the Internal Revenue Code of 1986 regarding golden parachute payments, the executive officer is entitled to an additional cash payment so that he will be in the same after-tax position as if the excise tax were not applicable.

*General.* The Severance Agreements prohibit the executive officers from competing with the Company or directly or indirectly soliciting customers or employees for a period of two years after termination. The Severance Agreements also require each executive officer to release any claims against SYSCO and its affiliates.

On June 14, 2005, the Company and Mr. Lankford entered into a Separation Agreement and Mutual Release pursuant to which Mr. Lankford resigned from his positions as President, Chief Operating Officer and Director as of July 2, 2005 and retired on October 1 (Separation Date). The agreement amended his executive severance agreement and entitled him to receive the following benefits and payments:

Cash lump sum payment on October 1, 2005 equal to \$6,197,696.25 representing the total of (i) 24 months of his base salary, (ii) two times his average annual bonus for fiscal years 2001 through 2005, (iii) 24 months of COBRA, (iv) earned but unused vacation time, and (v) \$810,606;

Fully vested (100%) SERP benefits to be paid monthly (approximately \$94,946 per month) beginning six months after the Separation Date under a joint and <sup>2</sup>/<sub>3</sub> survivor benefit with a 10-year certain guarantee;

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Fully vested (100%) EDCP benefits, including all Company matching contributions, to be paid annually for 15 years (approximately \$651,611 per year including interest), beginning six months after the Separation Date; and

Vested benefits under SYSCO's 401(k) plan and retirement plan and reimbursement of certain legal fees.

**Retirement Plan**

We have a defined benefit retirement plan (the Retirement Plan) that was most recently amended and restated on November 19, 2001, generally effective as of January 1, 1997 with various provisions having different effective dates, as required by various laws. The amended and restated Retirement Plan also incorporated certain discretionary changes in plan provisions effective May 15, 1998 and April 1, 2000. The restated Retirement Plan was further amended effective January 1, 2002, January 1, 2003, October 1, 2004, March 28, 2005, and July 1, 2005, in order to comply with various laws and regulations or other guidance published by the Internal Revenue Service and the U.S. Department of Labor, to clarify and simplify the Retirement Plan's administration, and to add to the Retirement Plan's coverage (i) new participating employers, and (ii) groups of employees newly eligible pursuant to the terms of certain collective bargaining agreements. In addition to benefits accrued to date which are set forth below, each Named Executive Officer will accrue benefits in the future in accordance with the table below:

**Pension Plan Table (1)(2)(3)**

<b>Career Average Compensation Earned On And After July 3, 2005(4)</b>	<b>Years of Credited Service</b>					
	<b>10</b>	<b>15</b>	<b>20</b>	<b>25</b>	<b>30</b>	<b>35</b>
\$100,000	\$ 15,000	\$ 22,500	\$ 30,000	\$ 37,500	\$ 45,000	\$ 52,500
150,000	22,500	33,750	45,000	56,250	67,500	78,750
200,000	30,000	45,000	60,000	75,000	90,000	105,000
250,000	37,500	56,250	75,000	93,750	112,500	131,250

- (1) Assumes the annual benefit is payable for five years certain and life thereafter and that retirement age is 65. Retirement Plan benefits are not subject to reduction by Social Security or any other offsets.
- (2) Current law and regulations limit retirement benefits to \$167,889 for calendar 2005 if they are payable for five years certain and life thereafter (assuming retirement age of 65). This limitation applies to total retirement benefits under the Retirement Plan as determined by adding benefits accrued with respect to periods of employment with SYSCO both before and after July 2, 2005. The Pension Plan Table does not reflect this limitation.
- (3) In addition, all MIP participants, including the Named Executive Officers, are provided with a Supplemental Executive Retirement Plan which is designed, generally, to provide annual payments to participants who satisfy certain years of service, years of MIP participation, and age requirements that, in combination with all SYSCO and other qualified retirement plan benefits (to the extent not derived from participant contributions to such plans) and Social Security payments available to the participant upon retirement, are equal to 50% of a participant's final average annual compensation (as determined over the period specified in the Supplemental Executive Retirement Plan).
- (4) Compensation for benefit calculation purposes is limited by law to \$210,000 for calendar 2005 and later years subject to cost-of-living adjustments. Compensation limitations are not taken into account in the Pension Plan

Table.

To the extent included in W-2 income, all amounts shown in the Summary Compensation Table (plus certain pre-tax contributions), other than deferred bonus and those amounts reported in the All Other Compensation column, are utilized to compute career average compensation, subject to the compensation limitations noted in footnote (4).

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The Retirement Plan provides for an annual benefit payable monthly for five years certain and life thereafter, equal to:

the normal retirement benefit that accrued under the prior plan before July 2, 1989, plus

an amount equal to 1<sup>1</sup>/<sub>2</sub>% of the participant's average monthly eligible compensation (based on the participant's W-2 earned income, plus certain pre-tax contributions) paid on and after July 2, 1989 times years and partial years of credited service performed on and after July 2, 1989.

In the event of a participant's death while actively in our employ or on leave of absence or layoff status before his or her normal retirement age (age 65) or, if earlier, after becoming eligible for a benefit that has not commenced, and if the participant has five or more years of credited service, a death benefit is payable monthly to the participant's beneficiary during a 10-year period certain and, if applicable, for the beneficiary's life thereafter. The single-sum value of the death benefit is actuarially equivalent to the single-sum value of the monthly pension accrued by the deceased participant prior to his or her death or earlier termination of employment, with interest credited from the participant's date of termination through his date of death, if applicable. The same death benefit, calculated on the single sum value of the participant's monthly pension amount earned at the date of the participant's death, is available to the beneficiary of a participant who dies while actively in our employ or on leave of absence or layoff status after his or her 65th birthday.

The Named Executive Officers had accrued the following annual benefits and credited benefit service under the Retirement Plan as of July 2, 2005:

Mr. Schnieders \$53,926 and 23 years;

Mr. Lankford \$56,514 and 24 years(\*);

Mr. Stubblefield \$42,172 and 16 years;

Mr. Accardi \$57,563 and 29 years; and

Mr. Spitler \$48,082 and 18 years.

As of July 2, 2005, the Named Executive Officers also had anticipated future service to age 65 as follows:

Mr. Schnieders 8 years;

Mr. Lankford 7 years (\*);

Mr. Stubblefield 6 years;

Mr. Accardi 8 years; and

Mr. Spitler 9 years.

(\*) Mr. Lankford resigned as an executive officer on July 2, 2005. See Severance Agreements above for a description of the severance payments and retirement benefits paid and to be paid to Mr. Lankford subsequent to the end of fiscal 2005.

**Table of Contents****Stock Performance Graph**

The following stock performance graph compares the performance of SYSCO's Common Stock to the S&P 500 Index and to a peer group for SYSCO's last five fiscal years. The members of the peer group are Nash Finch Company, Supervalu, Inc. and Performance Food Group Company. Fleming, which had been included in the peer group in the past, sold its foodservice operations in August 2003.

The companies in the peer group were selected because they comprise a broad group of publicly held corporations with food distribution operations similar in some respects to our operations. Performance Food Group is a foodservice distributor and the other members of the peer group are in the business of distributing grocery products to retail supermarkets. We consider the peer group to be a more representative peer group than the S&P Consumer Staples (Food Distributors) index maintained by Standard & Poor's Corporation that consists of SYSCO and Supervalu, Inc. because the peer group includes an additional foodservice distributor and represents a broader index.

The returns of each member of the peer group are weighted according to each member's stock market capitalization as of the beginning of each period measured. The graph assumes that the value of the investment in our Common Stock, the S&P 500 Index, and the peer group was \$100 on the last trading day of fiscal 2000, and that all dividends were reinvested. Performance data for SYSCO, the S&P 500 Index and for each member of the peer group is provided as of the last trading day of each of our last five fiscal years.

**Cumulative Total Return**

	<b>6/30/00</b>	<b>6/29/01</b>	<b>6/28/02</b>	<b>6/27/03</b>	<b>7/2/04</b>	<b>7/1/05</b>
SYSCO CORPORATION	100.00	130.29	132.15	145.54	174.41	184.74
S&P 500	100.00	85.17	69.85	70.03	83.41	88.68
PEER GROUP	100.00	115.01	153.38	153.14	169.50	192.62

**Table of Contents****REPORT OF THE AUDIT COMMITTEE**

The Audit Committee operates under a written charter adopted by the Board of Directors, a copy of which is attached hereto as Annex A. Messrs. Hafner, Merrill and Tilghman (Chairman) served on the Audit Committee during the full fiscal 2005 year, and Mr. Cassaday has served on the Audit Committee since his election to the Board in November 2004. Each member of the Audit Committee is financially literate and each member is independent as defined in the New York Stock Exchange's listing standards and Section 10A(m)(3) of the Securities Exchange Act of 1934. None of the Audit Committee members serve on the audit committees of more than two other companies. The Audit Committee held 12 meetings during fiscal 2005. The Board has determined that Mr. Hafner meets the definition of an audit committee financial expert as promulgated by the Securities and Exchange Commission.

The function of the Audit Committee is to oversee and report to the Board with respect to various auditing and accounting matters, including the selection of the independent public accountants, the scope of audit procedures, the nature of all audit and non-audit services to be performed by the independent public accountants, the fees to be paid to the independent public accountants, the performance of the independent public accountants and the Company's accounting practices and policies.

The Audit Committee has met and held discussions with management and the independent public accountants. Management represented to the Audit Committee that SYSCO's consolidated financial statements were prepared in accordance with generally accepted accounting principles, and the Audit Committee has reviewed and discussed the audited consolidated financial statements with management and the independent public accountants. The Audit Committee also discussed with the independent public accountants the matters required to be discussed by Statement on Auditing Standards No. 61. SYSCO's independent public accountants provided to the Audit Committee the written disclosures and the letter required by the Independence Standards Board's Standard No. 1, and the Audit Committee discussed with the independent public accountants that firm's independence.

Based on the Audit Committee's discussion with management and the independent public accountants and the Audit Committee's review of the representations of management and the report of the independent public accountants, the Audit Committee recommended that the Board of Directors include the audited consolidated financial statements in SYSCO's Annual Report on Form 10-K for the year ended July 2, 2005 filed with the Securities and Exchange Commission.

**AUDIT COMMITTEE**

John M. Cassaday  
Joseph A. Hafner, Jr.  
Richard G. Merrill  
Richard G. Tilghman, Chairman

**Fees Paid to Independent Public Accountants**

During fiscal 2005 and 2004, SYSCO incurred the following fees for services performed by Ernst & Young LLP:

	<b>Fiscal 2005</b>	<b>Fiscal 2004</b>
Audit Fees	\$ 3,343,900	\$ 2,312,800
Audit Related Fees(1)	164,441	421,541
Tax Fees(2)	2,522,612	2,689,970
All Other Fees		

(1) Audit related fees in fiscal 2005 included \$64,350 related to acquisition due diligence, \$81,310 for the audit of certain benefit plans and \$18,781 for other audit-related services. Audit related fees in fiscal 2004

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related to acquisition due diligence, assistance with preparation for the implementation of Section 404 of the Sarbanes-Oxley Act of 2002 and the audit of certain benefit plans.

- (2) Tax fees in fiscal 2005 included \$2,493,874 related to the income tax compliance outsourcing arrangement with the Company's independent auditor and \$28,738 in other tax compliance and audit defense assistance. Tax fees in fiscal 2004 related to the same types of engagements.

*Pre-Approval Policy*

In February 2003, the Audit Committee adopted a formal policy concerning approval of audit and non-audit services to be provided by the independent auditor to the Company. The policy requires that all services, including audit services and permissible audit related, tax and non-audit services, to be provided by Ernst & Young LLP to the Company, be pre-approved by the Audit Committee. All of the services performed by Ernst & Young in fiscal 2005 were approved in advance by the Audit Committee pursuant to the foregoing pre-approval policy and procedures. During fiscal 2005, Ernst & Young did not provide any services prohibited under the Sarbanes-Oxley Act.

**PROPOSAL TO RATIFY APPOINTMENT OF INDEPENDENT ACCOUNTANTS  
ITEM NO. 2 ON THE PROXY CARD**

The Audit Committee of the Board has appointed Ernst & Young LLP as SYSCO's independent accountants for fiscal 2006. Ernst & Young LLP has served as the Company's independent public accountants providing auditing, financial and tax services since their engagement in fiscal 2002. In determining to appoint Ernst & Young, the Audit Committee carefully considered Ernst & Young's past performance for the Company, its independence with respect to the services to be performed and its general reputation for adherence to professional auditing standards.

Although the Company is not required to seek ratification, the Audit Committee and the Board believe it is sound corporate governance to do so. If stockholders do not ratify the appointment of Ernst & Young, the current appointment will stand, but the Audit Committee will consider the stockholders' action in determining whether to appoint Ernst & Young as the Company's independent accountants for fiscal 2007.

Representatives of Ernst & Young LLP will be present at the Annual Meeting and will have the opportunity to make a statement if they desire to do so. They will also be available to respond to appropriate questions.

***The Board of Directors recommends a vote FOR the ratification of the  
appointment of independent accountants for fiscal 2006.***

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**PROPOSAL TO APPROVE THE 2005 MANAGEMENT INCENTIVE PLAN  
ITEM NO. 3 ON THE PROXY CARD**

The 2005 Management Incentive Plan (the "2005 MIP") was recommended by the Compensation and Stock Option Committee (the "Committee") on September 8, 2005, and adopted by the Board of Directors on September 9, 2005, subject to stockholder approval. If approved, the 2005 MIP will become effective on November 11, 2005 and terminate on November 11, 2010 (unless earlier terminated by action of the Board of Directors). Awards made prior to termination of the plan with respect to the 2010 fiscal year will remain in effect following termination of the plan. The Committee will not make any awards under the 2005 MIP without stockholder approval.

The 2005 MIP will replace the 2000 MIP. However, awards made with respect to fiscal year 2006 will be governed by the terms of the 2000 MIP. No more than 1,200,000 additional shares of Common Stock may be issued under the 2000 MIP. See "Proposal to Approve Compensation to be Paid to Certain Executive Officers Under the 2000 Management Incentive Plan, Item No. 4 on the Proxy Card."

The Board of Directors is seeking stockholder approval for two reasons:

Stockholder approval of stock awards granted under the 2005 MIP is required by Section 303A.08 of the New York Stock Exchange Listed Company Manual. It is intended that such approval apply to all shares delivered under the 2005 MIP prior to the termination date.

Payment of compensation under the 2005 MIP to the Senior Executive Participants (i.e., the Company's chief executive officer and its other four most highly compensated executive officers) is being submitted to stockholders for approval so that such compensation will qualify as performance-based for purposes of Section 162(m) of the Code. Compensation that qualifies as performance-based for purposes of Section 162(m) of the Code is not subject to the annual Section 162(m) limit on the deductibility of compensation in excess of \$1 million with respect to each of the Senior Executive Participants. It is intended that such approval apply to all awards payable with respect to fiscal years 2007, 2008, 2009 and 2010, so long as they are paid prior to the date of the Company's Annual Meeting of Stockholders held in 2010.

The following summary of the material terms of the 2005 MIP is qualified in its entirety by the terms of the 2005 MIP, a copy of which is attached as Annex B hereto.

**Purpose of the 2005 MIP**

The purpose of the 2005 MIP is to promote the interests of the Company and its stockholders by providing incentives to (i) certain key management personnel for outstanding performance in the management of the divisions or subsidiaries of the Company and (ii) certain corporate personnel for managing the operations of the Company as a whole and/or managing the operations of certain subsidiaries. To achieve that purpose, the 2005 MIP permits the grant of performance-based bonus awards, payable in cash and shares of Common Stock, as further explained below.

**Administration of the 2005 MIP**

The Committee will administer the 2005 MIP, except that it may delegate administrative powers with respect to awards to non-executive officers. The Committee is composed entirely of "non-employee directors" within the meaning of SEC Rule 16b-3 promulgated under the Securities Exchange Act of 1934, as amended (the "Exchange Act"), and "outside directors" within the meaning of Section 162(m) of the Internal Revenue Code of 1986 (the "Code"). As noted elsewhere, the members of the Committee are also "independent" as that term is defined by New York Stock Exchange listing requirements and the Company's Corporate Governance Guidelines.

The Committee will have the power in its discretion to grant awards under the 2005 MIP, to select the individuals to whom awards are granted, to determine the terms of all awards under the 2005 MIP, to interpret the provisions of the 2005 MIP and to otherwise administer the plan.

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### **Eligibility and Participation**

The Committee designates participants for a particular fiscal year from among the following eligible individuals:

*Senior Executive Participants* Persons who are covered employees under Code Section 162(m) during the relevant fiscal year (currently, this includes the Company's Chief Executive Officer and the four highest compensated officers other than the Chief Executive Officer).

*Corporate Participants* Persons who serve as officers of the Company who are also employees of the Company or a subsidiary.

*Subsidiary Participants* Persons who serve as officers of a subsidiary.

*Designated Participants* Persons other than Corporate Participants or Subsidiary Participants who are employed by a subsidiary or by the corporate office of the Company who are designated by the Committee from time to time.

A Senior Executive Participant is treated as such, even if he or she would otherwise fall into another category.

To the extent possible, the Committee will designate participants for a particular fiscal year before the start of that year, or as soon as practicable during the fiscal year in which a person first becomes eligible. Except as described below in connection with a Change of Control, the Committee may remove the employee from participation in the plan, with or without cause, at any time, even if he or she has already been designated to participate, and such an employee will not be entitled to any bonus under the plan for the year in which he or she is removed, regardless of when during such year he or she is removed.

Currently, approximately 190 employees of the Company and its subsidiaries are within the class eligible to participate in the 2005 MIP.

### **Payment of Bonuses**

*Corporate Participants and Certain Senior Executive Participants*

Bonus opportunities awarded to Corporate Participants, and Senior Executive Participants who would otherwise be Corporate Participants, under the 2005 MIP may consist of any or all of the following three components, based on the following criteria:

The Company's return on stockholders' equity and increases in earnings per share;

Return on capital and/or increases in pretax earnings in respect of selected divisions and/or subsidiaries of the Company; and/or

One or more of the following performance factors:

- (i) sales of the Company and/or one or more selected divisions and/or subsidiaries;
- (ii) pretax earnings of the Company;
- (iii) net earnings of the Company and/or one or more selected divisions and/or subsidiaries;
- (iv) control of operating and/or non-operating expenses of the Company and/or one or more selected divisions and/or subsidiaries;
- (v) margins of the Company and/or one or more selected divisions and/or subsidiaries;
- (vi) market price of the Company's securities;
- (vii) market share;
- (viii)

economic value added defined as a formula equal to (a) net operating profit after tax less (b)(i) average total assets net of intercompany balances and non-interest liabilities times (ii) weighted average cost of capital; and

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- (ix) with respect to participants other than Senior Executive Participants, other factors determined by the Committee that are directly tied to the performance of the Company and/or one or more selected divisions and/or subsidiaries.

*Subsidiary Participants and Certain Senior Executive Participants*

Bonus opportunities awarded to Subsidiary Participants, and Senior Executive Participants who would otherwise be Subsidiary Participants, under the 2005 MIP may consist of any or all of the following three components, based on the following criteria:

Return on capital and increases in pretax earnings of the subsidiary or division employing such participant;

Stockholders' equity and increases in earnings per share of the Company as a whole; and/or

One or more of the following performance factors:

- (i) sales of the Company and/or one or more selected divisions and/or subsidiaries;
- (ii) pretax earnings of the Company;
- (iii) net earnings of the Company and/or one or more selected divisions and/or subsidiaries;
- (iv) control of operating and/or non-operating expenses of the Company and/or one or more selected divisions and/or subsidiaries;
- (v) margins of the Company and/or one or more selected divisions and/or subsidiaries;
- (vi) market price of the Company's securities;
- (vii) market share;
- (viii) economic value added (defined above); and
- (ix) with respect to participants other than Senior Executive Participants, other factors determined by the Committee that are directly tied to the performance of the Company and/or one or more selected divisions and/or subsidiaries.

Subsidiary Participants, but not Senior Executive Participants, may also receive an additional bonus (the Additional Bonus) to be awarded in the sole discretion of the Committee. The Additional Bonus is based upon such criteria as the Committee may develop, in its sole discretion.

The Committee has discretion to determine the relative weights of the factors and the percentage of the total bonus comprised by the portion determined with respect to performance of divisions and/or subsidiaries versus the portion determined by Company performance. The Committee may alter the bonus formula with respect to any participant by changing the performance targets; provided, however, that the Company may not change the performance targets for any Senior Executive Participants after the first 90 days of the fiscal year.

*Designated Participants*

The Committee may formulate a bonus structure for each Designated Participant who is not a Senior Executive Participant which is based on performance factors determined by the Committee in its sole discretion, and which may or may not be similar to the bonus structure formulated for other participants.

*Senior Executive Participants*

Bonus opportunities awarded to Senior Executive Participants depend upon the criteria described above, based upon whether such a participant would otherwise have been a Corporate or Subsidiary Participant. However, no Senior Executive Participant may receive an aggregate bonus for any given fiscal year under the 2005 MIP (including the value of all cash and securities received with respect to such fiscal year) in excess of \$10,000,000.



**Table of Contents***Adjustments to Performance Measures*

In calculating whether a bonus has been earned, or the amount of any bonus earned, performance measures for fiscal years containing 53 weeks are subject to adjustment in order to provide comparability with 52-week years, at the discretion of the Committee.

**Stock Awards**

Participants who earn a cash bonus under the MIP will also be entitled to an award of Common Stock with a value equal to 28% of any cash bonus earned. In the event of a recapitalization of the Company or its merger into or consolidation with another corporation after the end of a fiscal year which is the measurement period for a specific award, but prior to the issuance of the award, a participant shall be entitled to receive such securities which he or she would have been entitled to receive had he or she been a stockholder of the Company holding shares pursuant to the 2005 MIP at the time of such recapitalization, merger or consolidation. The number of shares to which a Participant is entitled will be based on the closing price at the end of the relevant fiscal year. If there is a stock split, stock dividend or combination of shares with respect to the Company's Common Stock after the end of the year, but prior to the payment of the award, the award will be subject to appropriate adjustment.

**Cap on Total Stock Awards**

The maximum number of shares of Common Stock that may be delivered during the term of the 2005 MIP under all MIP awards is 2,800,000 shares, subject to adjustment for recapitalizations, stock splits and similar events. Shares issued under the 2005 MIP may consist, in whole or in part, of authorized and unissued shares, treasury shares or shares purchased on the open market.

**Transfer Restrictions on Stock Awards and Forfeiture**

Whether or not the shares to be issued to a participant are registered under the Securities Act of 1933, as amended, participants will be prohibited from selling or otherwise transferring them for at least 2 years after issuance, except in the event of death or termination of employment due to disability or retirement. In the event of a Change of Control, as that term is defined in the 2005 MIP, all transfer restrictions will lapse with respect to shares issued with respect to a performance period ending prior to or within one year after the Change of Control. If a participant's employment terminates for any reason other than death, disability or retirement, and he or she is the holder of shares under the 2005 MIP the transfer of which remains restricted pursuant to the foregoing provisions at the time of termination, then transfer will remain restricted for an additional 6 months following termination of employment, or until expiration of the 2-year period, whichever is longer.

If a participant's employment is terminated for any reason other than death, disability or retirement, within 2 years from issuance, he or she will forfeit all shares issued under the 2005 MIP within the 2-year period prior to termination, upon demand by the Committee made within 6 months following termination. However, if a Change of Control has occurred, the Company will have no rights with respect to any shares issued under the MIP with respect to a performance period ending prior to or within one year following the Change of Control.

**Change of Control**

If a Change of Control occurs, in lieu of any award he or she might otherwise be entitled to under the 2005 MIP, each participant will generally be entitled (subject to adjustments described below) to 128% of a bonus amount that is prorated based on:

the portion of the year that has elapsed; and

an amount equal to the cash portion (but not the stock award) of the award to which the participant would have been entitled based on annualized performance results for the interim period ending with the most recently completed fiscal quarter.

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For example, if a Change of Control occurred exactly half-way through the fiscal year, and the Company's most recently completed interim results on an annualized basis would have entitled a participant to a \$50,000 bonus for that year, then he or she would instead be entitled to \$32,000 (or  $\$50,000 \times \frac{1}{2} \times 1.28$ ).

*Participants Remaining at End of Year.* However, if a participant remains employed by the Company through the last day of the fiscal year in which the Change of Control occurs, and if the bonus that would have been paid to him or her for such fiscal year under the Plan based on the Company's actual performance for the entire year would have been greater than the amount he or she received under the foregoing paragraph, then a cash sum equal to the difference in value will be paid.

*Participants with Severance Arrangements.* Notwithstanding the foregoing, with respect to the Company's current Chairman, Chief Executive Officer and President, Richard J. Schnieders, and any other participant who has a severance agreement with the Company, any bonus paid pursuant to the foregoing paragraphs shall be reduced by any portion of the participant's severance which is determined by reference to payments received or to be received under the 2005 MIP or any of its predecessor or successor plans.

**Amendment and Early Termination**

The 2005 MIP allows amendment at any time by the Board of Directors. Any such amendment shall be effective as of commencement of the fiscal year during which the 2005 MIP is amended, regardless of the date of the amendment, unless otherwise stated by the Board of Directors. Certain material amendments, such as materially increasing the number of shares, expanding the types of awards that may be granted, material expansion of the class of participants or material extension of the term, may also be subject to stockholder approval under the NYSE listing requirements. The 2005 MIP may be terminated at any time by the Board of Directors and termination will be effective as of the commencement of the fiscal year in which such action to terminate the 2005 MIP is taken.

**Federal Income Tax Consequences**

The following is a general description of the federal income tax consequences of compensation paid under the 2005 MIP. This summary does not address any state, local or other non-federal tax consequences associated with the payment of compensation under the 2005 MIP. This discussion is intended for the information of stockholders considering how to vote at the annual meeting and not as tax guidance to individuals who participate in the 2005 MIP. Participants in the 2005 MIP should consult their own tax advisors to determine the tax consequences to them based on their own particular circumstances.

*Cash Bonuses; Stock Awards*

A participant will recognize ordinary compensation income at the time the cash portion of a participant's bonus is paid.

With respect to the Common Stock awards, the transfer restrictions described above would likely constitute a substantial risk of forfeiture for purposes of Section 83(b) of the Code. Thus, in general, unless a participant who receives Common Stock makes an election under Section 83(b) of the Code as described below, there will be no federal income tax consequences to the participant upon receipt of the Common Stock until the expiration of the transfer restrictions. At that time, the participant generally will recognize ordinary compensation income equal to the then fair market value of the Common Stock. In general, any dividends paid to the participant while the transfer restrictions apply will be taxable compensation income to the participant.

If the participant makes an election under Section 83(b) of the Code with respect to the Common Stock (a Section 83(b) Election), the participant will recognize ordinary compensation income equal to the fair market value of the Common Stock on the date of receipt. In addition, cash dividends paid to the participant making a Section 83(b) Election would generally be taxable at a current maximum rate of 15% applicable to dividend income.

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A participant will be subject to withholding for federal, and generally for state and local, income taxes at the time the participant recognizes ordinary income under the rules described above with respect to the Common Stock and cash received. The tax basis in the Common Stock received by a participant will equal the amount recognized by the participant as ordinary income under the rules described above. Upon a subsequent sale of the Common Stock, any gain or loss realized by the participant will be capital gain or loss.