SYSCO CORP
Form 10-K
August 28, 2007

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

Form 10-K

(Mark One)

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

For the fiscal year ended June 30, 2007

OR

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

Commission File Number 1-6544

Sysco Corporation
(Exact name of registrant as specified in its charter)

Delaware	**74-1648137**
(State or other jurisdiction of incorporation or organization)	*(IRS employer* identification number)
1390 Enclave Parkway **Houston, Texas**	**77077-2099**
(Address of principal executive offices)	*(Zip Code)*

Registrant s Telephone Number, Including Area Code:
(281) 584-1390
Securities Registered Pursuant to Section 12(b) of the Act:

Title of Each Class	Name of each exchange on which registered
Common Stock, $1.00 par value	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act:
None

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

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

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

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

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

Large Accelerated Filer þ Accelerated Filer o Non-accelerated Filer o

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

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

DOCUMENTS INCORPORATED BY REFERENCE:

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

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PART I

ITEM 1. *Business*

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

Overview

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

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

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

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

Operating Segments

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

Customers and Products

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

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

The products we distribute include:

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

imported specialties; and

fresh produce.

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

- paper products such as disposable napkins, plates and cups;
- tableware such as china and silverware;
- cookware such as pots, pans and utensils;
- restaurant and kitchen equipment and supplies; and
- cleaning supplies.

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

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

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

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

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

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

Sources of Supply

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

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

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

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

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

Working Capital Practices

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

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

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

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

Corporate Headquarters Services

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

Capital Improvements

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

Employees

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

Competition

SYSCO s business environment is competitive with numerous companies engaged in foodservice distribution. Our customers may also choose to purchase products directly from retail outlets. While competition is encountered primarily from local and regional distributors, a few companies compete with us on a national basis. We believe that the principal competitive factors in the foodservice industry are effective customer contacts, the ability to deliver a wide range of quality products and related services on a timely and dependable basis and competitive prices. We estimate that we serve about 15% of an approximately $225 billion annual market that includes the foodservice and hotel amenity, furniture and textile markets both in the United States and Canada. We believe, based upon industry trade data, that our sales to the United States and Canada food-prepared-away-from-home industry were the highest of any foodservice distributor during fiscal 2007. While adequate industry statistics are not available, we believe that in most instances our local operations are among the leading distributors of food and related non-food products to foodservice customers in their respective trading areas.

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Government Regulation

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

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

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

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

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

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

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

General

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

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

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

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

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Item 1A. *Risk Factors*

Our Low Margin Business May Be Negatively Impacted by Product Cost Deflation, Product Cost Inflation or Other Economic Conditions

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

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

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

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

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

Taxing Authorities May Successfully Challenge our Baugh Supply Chain Cooperative Structure

The National Supply Chain project involved the creation of the BSCC which administers a consolidated product procurement program to develop, obtain and ensure consistent quality food and non-food products. BSCC is a cooperative taxed under subchapter T of the United States Internal Revenue Code. We believe that the deferred tax liabilities resulting from the business operations and legal ownership of BSCC are appropriate under the tax laws. However, if the application of the tax laws to the cooperative structure of BSCC were to be successfully challenged by any federal, state or local tax authority, we could be required to accelerate the payment of all or a portion of our income tax liabilities associated with BSCC that we otherwise had deferred until future periods, and in that event, would be liable for interest on such amounts. As of June 30, 2007, we have recorded deferred income tax liabilities of $988,000,000 related to the BSCC supply chain distributions. This amount represents the income tax liabilities related to BSCC that were accrued, but the payment had been deferred as of June 30, 2007. In addition, if the IRS or any other taxing authority determines that all amounts since the inception of BSCC were inappropriately deferred or that BSCC should have been a taxable entity, we estimate that in addition to making a current payment for amounts previously deferred, as discussed above, we may have additional liability, representing interest that would be payable on the cumulative deferred balances ranging from $185,000,000 to $205,000,000, prior to federal and state income tax benefit, as of June 30, 2007. We calculated this amount based upon the amounts deferred since the inception of BSCC applying the applicable jurisdictions interest rates in effect each period. During the third quarter of fiscal 2007, the Internal Revenue Service (IRS), in connection with its audit of our 2003 and 2004 federal income tax returns, proposed adjustments related to the taxability of BSCC. We are vigorously protesting these adjustments. We have reviewed the merits of the issues raised by the IRS and based upon such review, we have not recorded any related amount in any period. A taxing authority requiring us to accelerate the payment of these deferred tax liabilities and to pay related interest, if any, could cause us to raise additional capital through debt financing or the issuance of equity or we may have to forego or defer planned capital expenditures or share repurchases or a combination of these items.

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We Need Access to Borrowed Funds in Order to Grow

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

Product Liability Claims Could Materially and Adversely Impact our Business

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

Adverse Publicity Could Negatively Impact our Reputation and Reduce Earnings

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

Failure to Successfully Renegotiate Union Contracts Could Result in Work Stoppages

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

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

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

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

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

We do not directly manage these multi-employer plans, which are generally managed by boards of trustees, half of whom are appointed by the unions and the other half by other contributing employers to the plan. Based upon the information available to us from plan administrators, we believe that some of these multi-employer plans are underfunded due partially to a decline in the value of the assets supporting these plans, a reduction in the number of actively participating members for whom employer contributions are required, and the level of benefits provided by the plans. In addition, the Pension Protection Act, enacted in August 2006, will require under-funded pension plans to improve their funding ratios within prescribed intervals based on the level of their under-funding, perhaps beginning as soon as calendar 2008. As a result, our required contributions to these plans may increase in the future.

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

We Must Finance and Integrate Acquired Businesses Wisely

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

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

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

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

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

Technology Dependence Could have a Material Negative Impact on our Business

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

Item 1B. ***Unresolved Staff Comments***

None.

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Item 2. ***Properties***

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

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

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

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

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

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

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

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

Item 3. *Legal Proceedings*

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

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

None.

PART II

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

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

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

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

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

ISSUER PURCHASES OF EQUITY SECURITIES

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

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

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

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

On June 11, 2007, we entered into a stock purchase plan with Wachovia Securities to purchase up to 4,150,000 shares of SYSCO common stock as authorized under the November 2005 repurchase program pursuant to Rules 10b5-1 and 10b-18 under the Exchange Act. A total of 4,150,000 shares were purchased between June 11, 2007 and August 14, 2007, including during company blackout periods. By its terms, the agreement terminated on August 14, 2007.

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

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Item 6. ***Selected Financial Data***

	Fiscal Year				
	2007	**2006(1)**	**2005**	**2004 (53 Weeks)**	**2003**
	(In thousands except for share data)				
Sales	$ 35,042,075	$ 32,628,438	$ 30,281,914	$ 29,335,403	$ 26,140,337
Earnings before income taxes	1,621,215	1,394,946	1,525,436	1,475,144	1,260,387
Income taxes	620,139	548,906	563,979	567,930	482,099
Earnings before cumulative effect of accounting change	1,001,076	846,040	961,457	907,214	778,288
Cumulative effect of accounting change		9,285			
Net earnings	$ 1,001,076	$ 855,325	$ 961,457	$ 907,214	$ 778,288
Earnings before cumulative effect of accounting change:					
Basic earnings per share	$ 1.62	$ 1.36	$ 1.51	$ 1.41	$ 1.20
Diluted earnings per share	1.60	1.35	1.47	1.37	1.18
Net earnings:					
Basic earnings per share	$ 1.62	$ 1.38	$ 1.51	$ 1.41	$ 1.20
Diluted earnings per share	1.60	1.36	1.47	1.37	1.18
Dividends declared per share	0.74	0.66	0.58	0.50	0.42
Total assets	$ 9,518,931	$ 8,992,025	$ 8,267,902	$ 7,847,632	$ 6,936,521
Capital expenditures	603,242	513,934	390,026	530,086	435,637
Current maturities of long-term debt	$ 3,568	$ 106,265	$ 410,933	$ 162,833	$ 20,947
Long-term debt	1,758,227	1,627,127	956,177	1,231,493	1,249,467
Total long-term debt	1,761,795	1,733,392	1,367,110	1,394,326	1,270,414
Shareholders equity	3,278,400	3,052,284	2,758,839	2,564,506	2,197,531
Total capitalization	$ 5,040,195	$ 4,785,676	$ 4,125,949	$ 3,958,832	$ 3,467,945
Ratio of long-term debt to capitalization	35.0%	36.2%	33.1%	35.2%	36.6%

Our financial results are impacted by accounting changes and the adoption of various accounting standards. See Accounting Changes in Item 7 for further discussion.

(1) We adopted the provisions of SFAS 123(R), *Share-Based Payment* effective at the beginning of fiscal 2006. As a result, the results of operations include incremental share-based compensation cost over what would have been recorded had we continued to account for share-based compensation under APB No. 25, *Accounting for Stock Issued to Employees*.

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Item 7. *Management s Discussion and Analysis of Financial Condition and Results of Operations*

Highlights

Sales increased 7.4% in fiscal 2007 over the prior year. Accounting pronouncement EITF 04-13 (see below) negatively impacted sales growth in fiscal 2007 by 0.7% and also affects the comparison of gross margins, operating expenses and earnings as a percentage of sales between the periods. Gross margins as a percentage of sales were 19.3% for fiscal 2007 and fiscal 2006. Operating expenses as a percentage of sales for fiscal 2007 decreased from the prior year, reflecting efficiencies in our operating activities. Decreases in pension and share-based compensation expenses and higher gains related to the cash surrender value of corporate-owned life insurance policies were largely offset by increased management incentive bonus accruals and investments in strategic business initiatives. Earnings before the cumulative effect of accounting change increased 18.3% for fiscal 2007 over the prior year. Diluted earnings per share before the cumulative effect of accounting change increased 18.5% for fiscal 2007 over the prior year.

Overview

SYSCO distributes food and related products to restaurants, healthcare and educational facilities, lodging establishments and other foodservice customers. Our operations are located throughout the United States and Canada and include broadline companies, specialty produce companies, custom-cut meat operations, hotel supply operations, SYGMA (our chain restaurant distribution subsidiary) and a company that distributes to internationally located chain restaurants.

We estimate that we serve about 15% of an approximately $225 billion annual market that includes foodservice market and hotel amenity, furniture and textile market both in the United States and Canada. According to industry sources, the foodservice, or food-prepared-away-from-home, market represents approximately one-half of the total dollars spent on food purchases made at the consumer level. This share grew from about 37% in 1972 to about 50% in 1998 and has not changed materially since that time.

General economic conditions and consumer confidence can affect the frequency of purchases and amounts spent by consumers for food-prepared-away-from-home and, in turn, can impact our sales. Historically, we have grown at a faster rate than the overall industry and have grown our market share in this fragmented industry. We intend to continue to expand our market share and grow earnings by focusing on sales growth, brand management, productivity gains, sales force effectiveness and supply chain management.

Strategic Business Initiatives

In fiscal 2006, our executive team, with the approval of the Board of Directors, established a strategy team to examine many aspects of our businesses with an emphasis on strategic focus areas which would help us achieve our long-term vision of becoming the global leader of the efficient, multi-temperature food product value chain. During fiscal 2007, we began to move from identifying strategic opportunities and developing a strategy process to implementing the initiatives that came from that process. Near the end of the fiscal year, we announced new responsibilities for several executives as we integrated the strategy teams and their initiatives into our business. A strategic management function will remain in place to help put strategic business initiatives into action and continue to refine and develop corporate strategy.

The following areas generally comprise the initiatives that will serve as the foundation of our efforts to ensure a sustainable future. Each area is staffed with SYSCO associates focused on the following:

> *Sourcing and National Supply Chain* focuses on lowering our cost of goods sold by leveraging SYSCO s purchasing power and procurement expertise and capitalizing on an end-to-end view of our supply chain. We expect our National Supply Chain project to lower inventory, operating costs, working capital requirements and future facility expansion needs at our operating companies while providing greater value to our suppliers and customers.
>
> *Integrated Delivery* focuses on standardized processes to optimize warehouse and delivery activities across the corporation and manage energy consumption to achieve a more efficient delivery of products to our customers.

Demand explores and implements initiatives to better understand and more profitably sell to and service SYSCO s customers, including better tools and techniques for selling.

Organizational Capabilities works to align management reporting, information technology systems and performance measures with the business initiatives.

A major component of our National Supply Chain project entails the use of redistribution centers (RDCs). The first RDC, the Northeast RDC located in Front Royal, Virginia, opened during the third quarter of fiscal 2005. In January 2006, we completed the purchase of land in Alachua, Florida for the future site of our second RDC, which will service our five broadline operating companies in Florida. Construction of the building site is in progress and this facility is expected to be operational in fiscal 2008. In March 2007, we purchased the site for construction of a third RDC in Hamlet, Indiana.

We will continue to use our strategic business initiatives to help us grow by leveraging our market leadership position to continuously improve how our associates buy, handle and market products for our customers. Our primary focus is on growing and optimizing the core foodservice distribution business in North America.

We are currently working to expand our import and export business. We will also continue to explore and identify opportunities to grow our global capabilities and stay abreast of international acquisition opportunities.

Accounting Changes

As of June 30, 2007, we adopted the recognition and disclosure provisions of SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R) (SFAS 158). The recognition provision requires an employer to recognize a plan s funded status in its statement of financial position and recognize the changes in a postretirement benefit plan s funded status in comprehensive income in the year in which the changes occur. The effect of adoption on our consolidated balance sheet as of June 30, 2007 was a decrease in prepaid pension cost of $83,846,000, a decrease in other assets of $43,854,000, an increase in accrued expenses of $10,967,000, a decrease in long-term deferred taxes of $73,328,000, an increase in other long-term liabilities of $52,289,000, and a charge to accumulated other comprehensive loss of $117,268,000. The adoption of SFAS 158 s recognition provision did not have an effect on our consolidated balance sheet as of July 1, 2006. The adoption has no effect on our consolidated results of operations for fiscal 2007, or for any prior year presented, and it will not affect our consolidated results of operations in future periods.

SFAS 158 also has a measurement date provision, which is a requirement to measure plan assets and benefit obligations as of the date of the employer s fiscal year-end statement of financial position, effective for fiscal years ending after December 15, 2008. In the first quarter of fiscal 2006, we changed the measurement date for pension and other postretirement benefit plans from fiscal year-end to May 31st to assist us in meeting accelerated SEC filing dates. As a result of this change, we recorded a cumulative effect of a change in accounting, which increased net earnings for fiscal 2006 by $9,285,000, net of tax. With the issuance of SFAS 158, we have elected to early adopt the measurement date provision in order to adopt both provisions of this accounting standard at the same time. As a result, beginning in fiscal 2008, the measurement date will return to correspond with our fiscal year-end. We have performed measurements as of May 31, 2007 and June 30, 2007 of our plan assets and benefit obligations. We will record a charge to beginning retained earnings in the first quarter of fiscal 2008 of approximately $4,000,000, net of tax, for the impact of the cumulative difference in our pension expense between the two measurement dates. We will also record a benefit to beginning accumulated other comprehensive loss in the first quarter of fiscal 2008 of approximately $23,000,000, net of tax, for the impact of the difference in our balance sheet recognition provision between the two measurement dates.

In the beginning of the fourth quarter of fiscal 2006, we adopted accounting pronouncement EITF 04-13 Accounting for Purchases and Sales of Inventory with the Same Counterparty, (EITF 04-13). The accounting standard requires certain transactions, where inventory is purchased by us from a customer and then resold at a later date to the same customer (as defined), to be presented in the income statement on a net basis. This situation primarily arises for SYSCO when a customer has a proprietary item which they have either manufactured or sourced, but they require our distribution and logistics capabilities to get the product to their locations. The application of this standard requires sales and cost of sales to be reduced by the same amount for these transactions and thus net earnings are unaffected by the application of this standard. We adopted this accounting pronouncement beginning in the fourth quarter of fiscal 2006 and have applied it to similar transactions prospectively. Prior period sales and cost of sales have not been restated. Therefore, the calculation of sales growth and the comparison of gross margins, operating expenses and earnings as a percentage of sales between the non-comparable periods is affected. The impact of adopting this standard resulted in sales being reduced by $99,803,000 for the fourth quarter of fiscal 2006 and $253,724,000 for the first 39 weeks of fiscal 2007, without a reduction in sales for the comparable prior year periods. Beginning with the fourth quarter of fiscal 2007, sales are reported on a comparable accounting basis with the comparable prior year period.

In fiscal 2006, we adopted the provisions of FASB Statement No. 123(R), Share-Based Payment, (SFAS 123(R)) utilizing the modified-prospective transition method under which prior period results have not been restated. Our consolidated results of operations for fiscal 2006 include incremental share-based compensation cost over what would have been recorded had the company continued to account for share-based compensation under APB 25 of $118,038,000 ($105,810,000, net of tax). Our consolidated results of operations for all future periods will include share-based compensation cost recorded in accordance with SFAS 123(R).

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Results of Operations

The following table sets forth the components of our consolidated results of operations expressed as a percentage of sales for the periods indicated:

	2007	2006	2005
Sales	100.0%	100.0%	100.0%
Costs and Expenses			
Cost of sales	80.7	80.7	80.9
Operating expenses	14.4	14.7	13.9
Interest expense	0.3	0.3	0.2
Other, net	0.0	0.0	0.0
Total costs and expenses	95.4	95.7	95.0
Earnings before income taxes and cumulative effect of accounting change	4.6	4.3	5.0
Income taxes	1.7	1.7	1.8
Earnings before cumulative effect of accounting change	2.9	2.6	3.2
Cumulative effect of accounting change		0.0	
Net earnings	2.9%	2.6%	3.2%

The following table sets forth the change in the components of our consolidated results of operations expressed as a percentage increase or decrease over the prior year:

	2007	2006
Sales	7.4%	7.8%
Costs and Expenses		
Cost of sales	7.4	7.5
Operating expenses	5.3	14.4
Interest expense	(3.8)	45.5
Other, net	96.7	(17.3)
Total costs and expenses	7.0	8.6
Earnings before income taxes and cumulative effect of accounting change	16.2	(8.6)
Income taxes	13.0	(2.7)
Earnings before cumulative effect of accounting change	18.3	(12.0)
Cumulative effect of accounting change	(100.0)	N/A
Net earnings	17.0%	(11.0)%
Earnings before cumulative effect of accounting change:		
Basic earnings per share	19.1%	(9.9)%
Diluted earnings per share	18.5	(8.2)

Net earnings:		
Basic earnings per share	17.4	(8.6)
Diluted earnings per share	17.6	(7.5)
Average shares outstanding	(0.5)	(2.3)
Diluted shares outstanding	(0.4)	(3.7)

Sales

Sales for fiscal 2007 were 7.4% greater than fiscal 2006. Acquisitions contributed 0.7% to the overall sales growth rate for fiscal 2006. The impact of EITF 04-13 reduced sales growth by 0.7%, or $334,002,000 for fiscal 2007, compared to a $99,803,000 reduction for fiscal 2006. Sales are reported on a comparable basis beginning in the fourth quarter of fiscal 2007, which is the one-year anniversary of the adoption of EITF 04-13.

Sales for fiscal 2006 were 7.8% greater than fiscal 2005. Acquisitions contributed 1.4% to the overall sales growth rate for fiscal 2006. The adoption of EITF 04-13 at the beginning of the fourth quarter of fiscal 2006 negatively impacted sales growth in fiscal 2006 by 0.3%.

Estimated product cost increases were 3.4% during fiscal 2007 as compared to 0.6% during fiscal 2006.

We believe that our continued focus on customer account penetration through the use of business reviews with customers and the continued investment in increasing the number of customer contact personnel contributed to the sales growth in fiscal 2007 and 2006. The number of customer contact personnel increased 5% during fiscal 2007 and 6% during fiscal 2006. In addition, we believe fiscal 2006 sales growth was aided by a declining rate of product cost increases experienced throughout the year, which lessened the overall gross margin pressures and contributed to underlying unit growth.

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Industry sources estimate the total foodservice market experienced real sales growth of approximately 1.1% in calendar year 2006 and 1.7% in calendar year 2005.

A comparison of the sales mix in the principal product categories during the last three years is presented below:

	2007	2006	2005
Fresh and frozen meats	19%	19%	19%
Canned and dry products	18	18	18
Frozen fruits, vegetables, bakery and other	13	14	14
Poultry	10	10	11
Dairy products	9	9	9
Fresh produce	9	9	8
Paper and disposables	8	8	8
Seafood	5	5	5
Beverage products	3	3	3
Janitorial products	3	2	2
Equipment and smallwares	2	2	2
Medical supplies	1	1	1
	100%	100%	100%

A comparison of sales by type of customer during the last three years is presented below:

	2007	2006	2005
Restaurants	64%	63%	64%
Hospitals and nursing homes	10	10	10
Schools and colleges	5	5	5
Hotels and motels	6	6	6
All other	15	16	15
	100%	100%	100%

Gross Margins

Gross margins as a percentage of sales were 19.3% for fiscal 2007 and fiscal 2006. The impact of EITF 04-13 contributed a 0.12% increase to gross margins as a percentage of sales in fiscal 2007 over fiscal 2006.

Estimated product cost increases, an internal measure of inflation, were 3.4% for fiscal 2007. The rate of product cost rose throughout the year, ending at an estimated 6.1% for the fourth quarter. Product cost increases result in reduced gross margins as a percentage of sales when compared to the prior year, as gross profit dollars are earned on a higher sales dollars base. However, the company was able to manage this inflationary environment well resulting in gross profit dollars increasing 7.4% for the year.

Gross margins as a percentage of sales were 19.3% for fiscal 2006, as compared to 19.1% for fiscal 2005. The adoption of EITF 04-13 in the fourth quarter of fiscal 2006 contributed 0.06% to the increase in gross margins as a percentage of sales in fiscal 2006 over fiscal 2005. Management believes that the remaining gross margin increase as a percentage of sales was aided by several factors, including low product cost inflation and effective merchandising.

While we can not predict if product cost inflation will continue in future periods, in general, we believe prolonged periods of high inflation may have a negative impact on our customers and as a result, on our sales, gross margins and earnings.

Operating Expenses

Operating expenses include the costs of warehousing and delivering products as well as selling, administrative and occupancy expenses.

Operating expenses as a percentage of sales were 14.4% for fiscal 2007, as compared to 14.7% for fiscal 2006. The impact of EITF 04-13 increased operating expenses as a percentage of sales by 0.09% for fiscal 2007 as compared to fiscal 2006. The decline in operating expenses as a percentage of sales, prior to the effect of the impact of EITF 04-13, was primarily due to efficiencies obtained at the operating company level. Decreases in pension and share-based compensation expenses and higher gains related to the cash surrender value of corporate-owned life insurance policies were largely offset by increased management incentive bonus accruals and investments in strategic business initiatives.

Share-based compensation expense decreased $28,852,000 in fiscal 2007 over the prior year, due primarily to the completion of expense recognition in fiscal 2006 of a significant number of options granted in fiscal 2002. Net pension costs decreased $56,001,000 in fiscal 2007 over the prior year, due primarily to the increase in the discount rate used to determine fiscal 2007 pension costs.

Operating expenses were reduced by the recognition of a gain of $23,922,000 in fiscal 2007 to adjust the carrying value of life insurance assets to their cash surrender value. This compared to the recognition of a gain of $9,702,000 in fiscal 2006. Due primarily to improved operating results, the non-stock portion of management incentive bonus accruals increased $64,770,000 in fiscal 2007 compared to fiscal 2006 when our performance did not satisfy the criteria for paying bonuses to our corporate officers. Investments in strategic business initiatives increased $22,410,000 in fiscal 2007 over the prior year.

Operating expenses as a percentage of sales were 14.7% for fiscal 2006, as compared to 13.9% for fiscal 2005. The impact of EITF 04-13 for the fourth quarter of fiscal 2006 increased operating expenses as a percentage of sales by 0.04% for fiscal 2006. The increase in operating expenses as a percentage of sales included incremental share-based compensation, increased fuel costs, increased pension costs and increased expenses associated with the National Supply Chain project, partially offset by reduced management incentive bonus accruals.

Share-based compensation expense increased $107,088,000 in fiscal 2006 over the prior year, resulting from incremental expense incurred due to the adoption of SFAS 123(R) (See Note 13 to the consolidated financial statements in Item 8). Fuel costs increased $48,600,000 in fiscal 2006 over the prior year. Net pension costs increased $23,734,000 in fiscal 2006 over the prior year. Operating expenses were reduced by the recognition of a gain of $9,702,000 in fiscal 2006 to adjust the carrying value of life insurance assets to their cash surrender value, as compared to a gain of $13,803,000 in fiscal 2005. The non-stock portion of various management incentive bonus accruals decreased $18,216,000 in fiscal 2006 as compared to fiscal 2005.

Net pension costs in fiscal 2008 are expected to decrease by approximately $9,000,000 due primarily to the funding status and asset performance of the qualified pension plan.

Interest Expense

The decrease in interest expense of $4,098,000 in fiscal 2007 as compared to fiscal 2006 was primarily due to decreased borrowing levels.

The increase in interest expense of $34,100,000 in fiscal 2006 over fiscal 2005 was due to a combination of increased borrowing rates and increased borrowing levels. In fiscal 2006, commercial paper and short-term bank borrowing rates increased over the prior year. Effective borrowing rates on long-term debt also increased over fiscal 2005. In fiscal 2005, effective borrowing rates on long-term debt were lowered through the use of fixed-to-floating interest rate swaps. Higher overall borrowing levels in fiscal 2006 over fiscal 2005 were a result of the level of share repurchases, increased working capital requirements driven primarily by sales growth and continued capital investments in the form of additions to plant and equipment and acquisitions of new businesses.

Other, Net

Changes between the years result from fluctuations in miscellaneous activities, primarily gains and losses on the sale of surplus facilities. The increase in fiscal 2007 over the prior year is primarily due to a gain of approximately $5,800,000 on the sale of land.

Income Taxes

The effective tax rate was 38.25% in fiscal 2007, 39.35% in fiscal 2006 and 36.97% in fiscal 2005.

The decrease in the effective tax rate for fiscal 2007 as compared to fiscal 2006 was primarily due to lower share-based compensation expense in fiscal 2007 as compared to fiscal 2006 and increased gains recorded related to the cash surrender value of corporate-owned life insurance policies.

The increase in the effective tax rate for fiscal 2006 over fiscal 2005 was a result of increased share-based compensation expense in fiscal 2006 due to the adoption of SFAS 123(R) and certain tax benefits recorded in fiscal 2005, which are discussed in Note 13, Share-Based Compensation, and Note 14, Income Taxes, to the Consolidated Financial Statements in Item 8.

Net Earnings

Net earnings increased 17.0% in fiscal 2007 over fiscal 2006. Net earnings decreased 11.0% in fiscal 2006 over fiscal 2005. The changes in net earnings for these periods were due primarily to the factors discussed above as well as the impact on the comparisons due to the fiscal 2006 accounting change discussed below.

In the first quarter of fiscal 2006, SYSCO recorded a cumulative effect of a change in accounting due to a change in the measurement date for pension and other postretirement benefits, which increased net earnings for fiscal 2006 by

$9,285,000, net of tax.

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Earnings Per Share

Basic earnings per share and diluted earnings per share increased 17.4% and 17.6%, respectively, in fiscal 2007 over the prior year. These increases were due primary to the result of factors discussed above.

Basic earnings per share and diluted earnings per share decreased 8.6% and 7.5%, respectively, in fiscal 2006 over the prior year. These decreases were due primarily to the result of factors discussed above, partially offset by a net reduction in shares outstanding. The net reduction in average shares outstanding used to calculate basic earnings per share is primarily due to share repurchases. The net reduction in diluted shares outstanding is primarily due to share repurchases, the exclusion of certain options from the diluted share calculation due to their anti-dilutive effect and a modification of the treasury stock method calculation utilized to compute the dilutive effect of stock options as a result of the adoption of SFAS 123(R). This modification results in lower diluted shares outstanding than would have been calculated had compensation cost not been recorded for stock options and stock issuances under the Employees Stock Purchase Plan.

Segment Results

The following table sets forth the change in the selected financial data of each of our reportable segments expressed as a percentage increase over the prior year and should be read in conjunction with Business Segment Information in Note 17 to the Consolidated Financial Statements in Item 8:

	2007		2006	
	Sales	Earnings Before Taxes	Sales	Earnings Before Taxes
Broadline	7.0%	9.5%	5.8%	2.0%
SYGMA	6.0	(1)	10.3	(2)
Other	13.8	7.1	23.7	27.5

(1) Percentage is not meaningful. SYGMA had earnings before taxes of $10,393,000 in fiscal 2007 and a loss before taxes of $660,000 in fiscal 2006.

(2) Percentage is not meaningful. SYGMA had a loss before taxes of $660,000 in fiscal 2006 and earnings before taxes of $11,028,000 in fiscal 2005.

The following table sets forth sales and earnings before taxes of each of our reportable segments expressed as a percentage of the respective consolidated total and should be read in conjunction with Business Segment Information in Note 17 to the Consolidated Financial Statements in Item 8:

	2007		2006		2005	
	Sales	Earnings Before Taxes	Sales	Earnings Before Taxes	Sales	Earnings Before Taxes
Broadline	78.6%	104.4%	78.9%	110.8%	80.3%	99.4%
SYGMA	12.5	0.6	12.7	0.0	12.4	0.7
Other	10.2	7.9	9.6	8.5	8.4	6.1
Intersegment sales	(1.3)		(1.2)		(1.1)	
Unallocated corporate expenses		(12.9)		(19.3)		(6.2)
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

We do not allocate share-based compensation related to stock option grants, issuances of stock pursuant to the Employees Stock Purchase Plan and restricted stock grants to non-employee directors. The decrease in unallocated corporate expenses as a percentage of consolidated earnings before taxes in fiscal 2007 over fiscal 2006 is primarily attributable to reduced share-based compensation expense and increased gains recorded related to the cash surrender value of corporate-owned life insurance policies. The increase in unallocated corporate expenses as a percentage of consolidated earnings before taxes in fiscal 2006 over fiscal 2005 is primarily attributable to increased share-based compensation expense due to the adoption of SFAS 123(R). See further discussion of Share-Based Compensation in Note 13 to the Consolidated Financial Statements in Item 8.

Broadline Segment

Sales for fiscal 2007 were 7.0% greater than fiscal 2006. The impact of EITF 04-13 reduced sales growth by 0.4%, or $173,171,000 for fiscal 2007 compared to a $57,211,000 reduction for fiscal 2006. Sales are reported on a comparable basis beginning in the fourth quarter of fiscal 2007, which is the one-year anniversary of the adoption of EITF 04-13. Acquisitions did not have an impact on the overall sales growth rate for fiscal 2007. Fiscal 2007 growth was due to increased sales to marketing associate-served customers and multi-unit customers primarily through continued focus on customer account penetration through the use of business reviews with customers, increases in the number of customer contact personnel and efforts of our marketing associates.

The decrease of Broadline segment sales as a percentage of total SYSCO sales in fiscal 2007 as compared to fiscal 2006 was due primarily to contributions to sales growth from the acquisitions of specialty meat, specialty produce and SYGMA operations during fiscal 2006. Marketing associate-served sales as a percentage of Broadline sales in the U.S. were 52.0% for fiscal 2007, as compared to 51.9% for fiscal 2006. SYSCO Brand sales as a percentage of Broadline sales in the U.S. were 45.5% for fiscal 2007 as compared to 48.1% for fiscal 2006.

The increase in earnings before income taxes for fiscal 2007 was primarily due to increases in sales, gross margin dollar increases and effective expense management.

Sales for fiscal 2006 were 5.8% greater than fiscal 2005. The adoption of EITF 04-13 in the fourth quarter of fiscal 2006 reduced sales growth in fiscal 2006 by 0.2%. Acquisitions contributed 0.1% to the overall sales growth rate for fiscal 2006. Management believes that SYSCO s continued focus on customer account penetration through the use of business reviews with customers, increases in the number of customer contact personnel and efforts of our marketing associates contributed to the sales growth in fiscal 2006.

The decrease of Broadline segment sales as a percentage of total SYSCO sales in fiscal 2006 as compared to fiscal 2005 was due primarily to strong sales growth in the SYGMA and other segments outpacing the Broadline sales growth, as well as the contributions to sales growth from the acquisitions of specialty meat, specialty produce and SYGMA operations during fiscal 2006.

The increase in earnings before income taxes for fiscal 2006 were primarily due to increases in sales partially offset by higher fuel costs and the continued investment in the National Supply Chain project.

SYGMA Segment

Sales for fiscal 2007 were 6.0% greater than fiscal 2006. The impact of EITF 04-13 reduced sales growth by 2.7%, or $159,236,000 for fiscal 2007 compared to a $42,560,000 reduction for fiscal 2006. Sales are reported on a comparable basis beginning in the fourth quarter of fiscal 2007, which is the one-year anniversary of the adoption of EITF 04-13. Acquisitions contributed 2.1% to the overall sales growth rate for fiscal 2007. Fiscal 2007 growth was due to sales to new customers and sales growth in SYGMA s existing customer base related to increased sales at existing locations as well as new locations added by those customers. In addition, certain customers were transferred from Broadline operations to be serviced by SYGMA operations, contributing to the sales increase.

The increase in earnings before income taxes in fiscal 2007 was due to several factors, including sales growth, increased margins and improved operating efficiencies, partially offset by costs of labor and auto liability related expenses. In addition, the transfer of customers from Broadline operations referred to above also contributed to the increase in earnings before income taxes.

Sales for fiscal 2006 were 10.3% greater than fiscal 2005. The adoption of EITF 04-13 in the fourth quarter of fiscal 2006 reduced sales growth in fiscal 2006 by 1.1%. Acquisitions contributed 0.5% to the overall sales growth rate for fiscal 2006. Fiscal 2006 growth was due primarily to sales to new customers and sales growth in SYGMA s existing customer base related to new locations added by those customers, each of which temporarily increases SYGMA s cost to service the customers. In addition, certain customers were transferred from Broadline operations to be serviced by SYGMA operations, contributing to the sales increase.

The decrease in earnings before income taxes in fiscal 2006 was due to several factors. Certain of SYGMA s customers experienced a slowdown in their business. This in turn resulted in lower cases per delivery and therefore reduced gross margin dollars per stop. In addition, SYGMA experienced increased fuel costs, startup costs related to new facilities, costs incurred on information systems projects and increased workers compensation costs.

Liquidity and Capital Resources

SYSCO provides marketing and distribution services to foodservice customers primarily throughout the United States and Canada. We intend to continue to expand our market share through profitable sales growth, foldouts and acquisitions. We also strive to increase the effectiveness of our customer contact personnel and our consolidated buying programs, as well as the productivity of our warehousing and distribution activities. These objectives require continuing investment. Our resources include cash provided by operations and access to capital from financial markets.

Our operations historically have produced significant cash flow. Cash generated from operations is first allocated to working capital requirements; investments in facilities, fleet and other equipment required to meet customers needs;

cash dividends; and acquisitions compatible with our overall growth strategy. Any remaining cash generated from operations may be applied toward a portion of the cost of the share repurchase program, while the remainder of the cost may be financed with additional debt. Our share repurchase program is used primarily to offset shares issued under various employee benefit and compensation plans, to reduce shares outstanding (which may have the net effect of increasing earnings per share) and to aid in managing the ratio of long-term debt to total capitalization. We target a long-term debt to total capitalization ratio between 35% and 40%. The ratio may exceed the target range from time to time, due to borrowings incurred in order to fund acquisitions and internal growth opportunities, and due to fluctuations in the timing and amount of share repurchases. The ratio also may fall below the target range due to strong cash flow from operations and fluctuations in the timing and amount of share repurchases. This ratio was 35.0% and 36.2% as of June 30, 2007 and July 1, 2006, respectively. For purposes of calculating this ratio, long-term debt includes both the current maturities and long-term portion.

We believe that our cash flows from operations, as well as the availability of additional capital under our existing commercial paper programs, bank lines of credit, debt shelf registration and our ability to access capital from financial markets in the future, will be sufficient to meet our cash requirements while maintaining proper liquidity for normal operating purposes.

Operating Activities

We generated $1,402,922,000 in cash flow from operations in fiscal 2007, $1,124,679,000 in fiscal 2006 and $1,191,208,000 in fiscal 2005. Increases in our cash flow from operations are primarily due to increased earnings offset by investments in working capital.

Cash flow from operations in fiscal 2007, fiscal 2006 and fiscal 2005 was reduced by increases in inventory balances and increases in accounts receivable balances, offset by an increase in accounts payable balances. The increases in accounts receivable and inventory balances were primarily due to sales growth. The accounts payable balances did not increase at the same rate as inventory increases. Accounts payable balances are impacted by many factors, including changes in product mix, cash discount terms and changes in payment terms with vendors due to the use of more efficient electronic payment methods.

Accrued expenses increased $132,936,000 during fiscal 2007, increased $29,161,000 during fiscal 2006, and decreased $52,423,000 during fiscal 2005. The increase in accrued expenses during fiscal 2007 was primarily due to increased accruals for current year incentive bonuses due to improved operating results over the prior year. The increase in accrued expenses during fiscal 2006 was related to various miscellaneous accruals. The decrease in accrued expenses during fiscal 2005 was primarily due to the amount of accrued incentive bonuses related to that year.

Also affecting the increase in accrued expenses and the increase in prepaid expenses and other current assets during fiscal 2007 was the recording of the product liability claim of $50,296,000 and corresponding receivable of $48,296,000. Cash flow from operations was not negatively affected, as these items mostly offset. See further discussion of the product liability claim under *Other Considerations*.

Other long-term liabilities and prepaid pension cost, net, increased $14,817,000 during fiscal 2007, decreased $75,382,000 in fiscal 2006 and increased $86,338,000 in fiscal 2005. The change in these accounts was primarily attributable to the recording of net pension costs and the timing and amount of pension contributions to our company-sponsored plans. In fiscal 2007, our pension contributions exceeded the amount of net pension costs recognized during the year resulting in a net cash outflow. In fiscal 2006 and 2005, the net pension costs recorded exceeded the amount of pension contributions during the year resulting in a net cash inflow.

One of the factors increasing the amount of taxes paid in fiscal 2007 and fiscal 2006, as compared to the amounts paid in fiscal 2005, was the amount of deductible pension contributions made during the year. Our contributions to our defined benefit plans were $91,163,000, $73,764,000 and $220,361,000 during fiscal 2007, fiscal 2006 and fiscal 2005, respectively. We expect to contribute approximately $92,000,000 to our defined benefit plans in fiscal 2008. Also impacting taxes paid is the net cash flow impact of supply chain distribution deferrals for fiscal 2007, fiscal 2006 and fiscal 2005, being incrementally positive when compared to what would have been paid on an annual basis without the deferral, due to increased volume through BSCC.

Investing Activities

Fiscal 2007 capital expenditures included:

- construction of fold-out facilities in Springfield, Illinois and Raleigh, North Carolina;
- replacement or significant expansion of facilities in Miami, Florida, Albuquerque, New Mexico, Columbia, South Carolina, Kansas City, Kansas, and Riviera Beach, Florida;
- the Southeast RDC in Alachua, Florida; and

continuing work on the corporate headquarters expansion.

Fiscal 2006 capital expenditures included:

construction of fold-out facilities in Springfield, Illinois, Geneva, Alabama, Knoxville, Tennessee and Raleigh, North Carolina;

replacement or significant expansion of facilities in Columbus, Ohio, Albuquerque, New Mexico and Denver, Colorado; and

continuing work on the corporate headquarters expansion.

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Fiscal 2005 capital expenditures included:

- construction of fold-out facilities in Spokane, Washington and Geneva, Alabama;
- replacement or significant expansion of facilities in Baltimore, Maryland, Cleveland, Ohio, Denver, Colorado, Milwaukee, Wisconsin, Miami, Florida and Hartford, Connecticut; and
- completion of the Northeast RDC in Front Royal, Virginia.

We expect total capital expenditures in fiscal 2008 to be in the range of $625,000,000 to $650,000,000. Fiscal 2008 expenditures will include the continuation of the fold-out program; facility, fleet and other equipment replacements and expansions; the corporate office expansion; the company s National Supply Chain project; and investments in technology.

During fiscal 2007, we acquired for cash one broadline foodservice operation. During fiscal 2006, we acquired for cash one broadline foodservice operation, one custom meat-cutting operation and five specialty produce distributors. During fiscal 2005, we acquired for cash one broadline foodservice operation, four custom meat-cutting operations, and two specialty produce distributors.

Financing Activities

We routinely engage in Board-approved share repurchase programs. The number of shares acquired and their cost during the past three fiscal years were 16,231,200 shares for $550,865,000 in fiscal 2007, 16,479,800 shares for $544,131,000 in fiscal 2006 and 16,790,200 shares for $597,660,000 in fiscal 2005. An additional 3,157,700 shares have been purchased at a cost of $101,710,000 through August 15, 2007, resulting in 19,950,000 shares remaining available for repurchase as authorized by the Board as of that date.

Dividends paid were $445,416,000, or $0.72 per share, in fiscal 2007, $397,537,000, or $0.64 per share, in fiscal 2006 and $357,298,000, or $0.56 per share in fiscal 2005. In May 2007, we declared our regular quarterly dividend for the first quarter of fiscal 2008 of $0.19 per share, which was paid in July 2007.

In November 2000, we filed with the Securities and Exchange Commission a shelf registration statement covering 30,000,000 shares of common stock to be offered from time to time in connection with acquisitions. As of August 15, 2007, 29,477,835 shares remained available for issuance under this registration statement.

We have uncommitted bank lines of credit, which provided for unsecured borrowings for working capital of up to $145,000,000, of which $18,900,000 was outstanding as of June 30, 2007 and $6,600,000 was outstanding as of August 15, 2007.

We have a commercial paper program allowing us to issue short-term unsecured notes in an aggregate not to exceed $1,300,000,000. The current program was entered into in April 2006 and replaced notes that were issued under our previous commercial paper program as they matured and became due and payable.

SYSCO and one of our subsidiaries, SYSCO International, Co., has a revolving credit facility supporting our U.S. and Canadian commercial paper programs. The facility in the amount of $750,000,000 may be increased up to $1,000,000,000 at our option, and terminates on November 4, 2011, subject to extension. In the first half of fiscal 2008, we intend to increase the size of the credit facility to $1,000,000,000 and extend the termination date by an additional year to 2012.

This facility was originally entered into in November 2005 in the amount of $500,000,000 and was increased to $750,000,000 in March 2006. In September 2006, the termination date on the facility was extended to November 4, 2011, in accordance with the terms of the agreement. This facility replaced the previous $450,000,000 (U.S. dollar) and $100,000,000 (Canadian dollar) revolving credit agreements in the U.S. and Canada, respectively, both of which were terminated in November 2005.

During fiscal 2007, 2006 and 2005, aggregate outstanding commercial paper issuances and short-term bank borrowings ranged from approximately $356,804,000 to $755,180,000, $126,846,000 to $774,530,000, and $28,560,000 to $253,384,000, respectively. Outstanding commercial paper issuances were $531,826,000 as of June 30, 2007 and $625,308,000 as of August 15, 2007.

In June 2005, we repaid the 6.5% senior notes totaling $150,000,000 at maturity utilizing a combination of cash flow from operations and commercial paper issuances. In July 2005, we repaid the 4.75% senior notes totaling $200,000,000 at maturity also utilizing a combination of cash flow from operations and commercial paper issuances.

In April 2005, we filed with the Securities and Exchange Commission a shelf registration statement covering $1,500,000,000 in debt securities. The registration statement was declared effective in May 2005. In September 2005, we issued 5.375% senior notes totaling $500,000,000 due on September 21, 2035, under the April 2005 shelf registration. These notes, which were priced at 99.911% of par, are unsecured, are not subject to any sinking fund requirement and include a redemption provision which allows us to retire the notes at any time prior to maturity at the greater of par plus accrued interest or an amount designed to ensure that the noteholders are not penalized by the early redemption. Proceeds from the notes were utilized to retire commercial paper issuances outstanding as of September 2005.

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In March 2005, we entered into a forward-starting interest rate swap with a notional amount of $350,000,000 as a cash flow hedge of the variability in the cash outflows of interest payments on the forecasted debt issuance due to changes in the benchmark interest rate. The fair value of the swap as of July 2, 2005 was ($32,584,000), which is reflected in Accrued expenses on the Consolidated Balance Sheet, with the corresponding amount reflected as a loss, net of tax, in Other comprehensive income (loss). In September 2005, in conjunction with the issuance of the 5.375% senior notes described above, we settled the $350,000,000 notional amount forward-starting interest rate swap. Upon termination, we paid cash of $21,196,000, which represented the fair value liability associated with the swap agreement at the time of termination. This amount is being amortized as interest expense over the 30-year term of the debt, and the unamortized balance is reflected as a loss, net of tax, in Other comprehensive income (loss).

In May 2006, we repaid at maturity the 7.0% senior notes totaling $200,000,000 utilizing a combination of cash flow from operations and commercial paper issuances.

In April 2007, we repaid at maturity the 7.25% senior notes totaling $100,000,000 utilizing a combination of cash flow from operations and commercial paper issuances.

Total debt as of June 30, 2007 was $1,780,695,000, of which approximately 68% was at fixed rates averaging 5.8% and the remainder was at floating rates averaging 5.2%. Certain loan agreements contain typical debt covenants to protect noteholders, including provisions to maintain our long-term debt to total capital ratio below a specified level. We were in compliance with all debt covenants as of June 30, 2007.

As part of normal business activities, we issue letters of credit through major banking institutions as required by certain vendor and insurance agreements. As of June 30, 2007 and July 1, 2006, letters of credit outstanding were $62,645,000 and $60,000,000, respectively.

Other Considerations

Product Liability Claim

In July, 2007, SYSCO was found contractually liable in arbitration proceedings related to a product liability claim from one of our former customers. As of June 30, 2007, we have recorded $50,296,000 on our consolidated balance sheet within accrued expenses related to the accrual of this loss. Also as of June 30, 2007, a corresponding receivable of $48,296,000 is included in the consolidated balance sheet within prepaid expenses and other current assets, which represents the estimate of the loss less the $2,000,000 deductible on SYSCO s insurance policy. We have hold harmless agreements with the product suppliers and are named as an additional insured party under the suppliers policies with their insurers. Further, we maintain our own product liability insurance with coverage related to this claim. We believe it is probable that we will be able to recover the recorded loss from one or more of these sources.

Multi-Employer Pension Plans

As discussed in Note 16, Commitments and Contingencies, to the Consolidated Financial Statements in Item 8, we contribute to several multi-employer defined benefit pension plans based on obligations arising under collective bargaining agreements covering union-represented employees.

Under current law regarding multi-employer defined benefit plans, a plan s termination, our voluntary withdrawal or the mass withdrawal of all contributing employers from any under-funded multi-employer defined benefit plan would require us to make payments to the plan for our proportionate share of the multi-employer plan s unfunded vested liabilities. Based on the information available from plan administrators, we estimate that our share of withdrawal liability on all the multi-employer plans we participate in, some of which appear to be under-funded, could be as much as $120,000,000.

For those plans that appear to be under-funded, we do not currently believe that it is probable that there will be a mass withdrawal of employers contributing to these plans or that any of the plans will terminate in the near future. However, required contributions to multi-employer plans could increase in the future as these plans strive to improve their funding levels. In addition, the Pension Protection Act, enacted in August 2006, will require under-funded pension plans to improve their funding ratios within prescribed intervals based on the level of their under-funding, perhaps beginning as soon as calendar 2008. Unforeseen requirements to pay such increased contributions, withdrawal liability and excise taxes could cause us to raise additional capital through debt financing or the issuance of equity or we may be required to cancel planned capital expenditures or share repurchases or a combination of these items.

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BSCC Cooperative Structure

Our affiliate, BSCC, is a cooperative taxed under subchapter T of the Unites States Internal Revenue Code. We believe that the deferred tax liabilities resulting from the business operations and legal ownership of BSCC are appropriate under the tax laws. However, if the application of the tax laws to the cooperative structure of BSCC were to be successfully challenged by any federal, state or local tax authority, we could be required to accelerate the payment of all or a portion of our income tax liabilities associated with BSCC that we otherwise have deferred until future periods, and in that event, would be liable for interest on such amounts. As of June 30, 2007, we have recorded deferred income tax liabilities of $988,000,000 related to the BSCC supply chain distributions. This amount represents the income tax liabilities related to BSCC that were accrued, but the payment had been deferred as of June 30, 2007. In addition, if the IRS or any other taxing authority determines that all amounts since the inception of BSCC were inappropriately deferred or that BSCC should have been a taxable entity, we estimate that in addition to making a current payment for amounts previously deferred, as discussed above, we may have liability, representing interest that would be payable on the cumulative deferred balances ranging from $185,000,000 to $205,000,000, prior to federal and state income tax benefit, as of June 30, 2007. We calculated this amount based upon the amounts deferred since the inception of BSCC applying the applicable jurisdictions interest rates in effect in each period. During the third quarter of fiscal 2007, the IRS, in connection with its audit of our 2003 and 2004 federal income tax returns, proposed adjustments related to the taxability of BSCC. We are vigorously protesting these adjustments. We have reviewed the merits of the issues raised by the IRS and based upon our review, we believe that the resulting interest is not a probable liability and accordingly, have not recorded any related amount in any period. A taxing authority requiring us to accelerate the payment of these deferred tax liabilities and to pay related interest, if any, could cause us to raise additional capital through debt financing or the issuance of equity or we may have to forego or defer planned capital expenditures or share repurchases or a combination of these items.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Contractual Obligations

The following table sets forth certain information concerning our obligations and commitments to make contractual future payments:

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	3-5 Years	More Than 5 Years
	(In thousands)				
Recorded Contractual Obligations:					
Short-term debt and commercial paper	$				