

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

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

(Mark One)

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

For the quarterly period ended December 30, 2006

OR

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

For the transition period from _____ to _____

**Commission file number 1-6544
SYSCO CORPORATION**

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

74-1648137
(IRS employer
identification number)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large Accelerated Filer Accelerated Filer Non-accelerated Filer

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

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

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Amendment No. 1 Explanatory Note

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

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PART I FINANCIAL INFORMATIONItem 1. *Financial Statements*

SYSCO CORPORATION and its Consolidated Subsidiaries

CONSOLIDATED BALANCE SHEETS

(In Thousands Except for Share Data)

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

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

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

* See Note 1
Restatement and
Basis of
Presentation

See Notes to Consolidated Financial Statements

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

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

* See Note 1
 Restatement and
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See Notes to Consolidated Financial Statements

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

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

* See Note 1
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SYSCO CORPORATION and its Consolidated Subsidiaries
 CONSOLIDATED CASH FLOWS (unaudited)
 (In Thousands)

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

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

* See Note 1
Restatement and
Basis of
Presentation

See Notes to Consolidated Financial Statements

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

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

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

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

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

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

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

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

	As Previously Reported	Adjustment	As Restated
Sales	\$ 17,240,820	\$	\$ 17,240,820
Costs and expenses			
Cost of sales	13,918,115		13,918,115
Operating expenses	2,519,096	(11,247)	2,507,849
Interest expense	53,772		53,772
Other, net	(12,413)		(12,413)
Total costs and expenses	16,478,570	(11,247)	16,467,323
Earnings before income taxes and cumulative effect of accounting change	762,250	11,247	773,497
Income taxes	296,811		296,811
Earnings before cumulative effect of accounting change	465,439	11,247	476,686
Cumulative effect of accounting change	(39,735)	39,735	
Net earnings	\$ 425,704	\$ 50,982	\$ 476,686
Earnings before cumulative effect of accounting change:			
Basic earnings per share	\$ 0.75	\$ 0.02	\$ 0.77
Diluted earnings per share	0.74	0.02	0.76
Net earnings:			
Basic earnings per share	0.69	0.08	0.77
Diluted earnings per share	0.68	0.08	0.76
Average shares outstanding	619,642,963		619,642,963
Diluted shares outstanding	626,777,041		626,777,041

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

	As Previously Reported	Adjustment	As Restated
Sales	\$ 8,568,748	\$	\$ 8,568,748
Costs and expenses			
Cost of sales	6,915,259		6,915,259
Operating expenses	1,240,819	(9,852)	1,230,967
Interest expense	28,006		28,006
Other, net	(3,375)		(3,375)
Total costs and expenses	8,180,709	(9,852)	8,170,857
Earnings before income taxes	388,039	9,852	397,891
Income taxes	151,353		151,353
Net earnings	\$ 236,686	\$ 9,852	\$ 246,538
Net earnings:			
Basic earnings per share	0.38	0.02	0.40
Diluted earnings per share	0.38	0.01	0.39
Average shares outstanding	619,158,876		619,158,876
Diluted shares outstanding	628,429,841		628,429,841
Consolidated Statements of Comprehensive Income (unaudited) 26-Week Period Ended December 30, 2006 (In Thousands)			

	As Previously Reported	Adjustment	As Restated
Net earnings	\$ 425,704	\$ 50,982	\$ 476,686
Other comprehensive income, net of tax:			
Foreign currency translation adjustment	(22,689)		(22,689)
Amortization of cash flow hedge	214		214
Total other comprehensive income (loss)	(22,475)		(22,475)

Comprehensive income	\$ 403,229	\$ 50,982	\$ 454,211
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Consolidated Statements of Comprehensive Income (unaudited)
13-Week Period Ended December 30, 2006
(In Thousands)

	As Previously		As
	Reported	Adjustment	Restated
Net earnings	\$ 236,686	\$ 9,852	\$ 246,538
Other comprehensive income, net of tax:			
Foreign currency translation adjustment	(22,135)		(22,135)
Amortization of cash flow hedge	107		107
Total other comprehensive income (loss)	(22,028)		(22,028)
Comprehensive income	\$ 214,658	\$ 9,852	\$ 224,510

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

2. Changes in Accounting

EITF 04-13 Adoption

In September 2005, the Emerging Issues Task Force (EITF) reached a consensus on Issue No. 04-13, Accounting for Purchases and Sales of Inventory With the Same Counterparty, which requires that two or more inventory transactions with the same counterparty (as defined) should be viewed as a single nonmonetary transaction if the transactions were entered into in contemplation of one another. Exchanges of inventory between entities in the same line of business should be accounted for at fair value or recorded at carrying amounts, depending on the classification of such inventory. This guidance was effective for the fourth quarter of fiscal 2006 for SYSCO. SYSCO has certain transactions where finished goods are purchased from a customer or sourced by that customer for warehousing and distribution and resold to the same customer. These transactions are evidenced by title transfer and are separately invoiced. Historically, the company has recorded such transactions in the Consolidated Results of Operations for purchases within Cost of Sales and sales within Sales. In fiscal 2007, the company recorded the net effect of such transactions in the Consolidated Results of Operations within Sales by reducing sales and cost of sales in the amount of \$177,006,000 for the first 26 weeks and \$85,474,000 for the second quarter. Prior to the adoption of EITF 04-13, the amounts included in the Consolidated Results of Operations on a gross basis within Cost of Sales for the 26 week and 13 week periods ended December 31, 2005 were \$191,973,000 and \$90,182,000, respectively. Such amounts were not restated when the new standard was adopted because only prospective treatment is required.

Pension Measurement Date Change

Beginning in fiscal 2006, SYSCO changed the measurement date for its pension and other postretirement benefit plans from fiscal year-end to May 31st, which represented a change in accounting. The one-month acceleration of the measurement date allows additional time for management to evaluate and report the actuarial pension measurements in the year-end financial statements and disclosures within the accelerated filing deadlines of the Securities and Exchange Commission. The cumulative effect of this change in accounting was an increase to earnings in the first quarter of fiscal 2006 of \$9,285,000, net of tax.

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3. New Accounting Standards*FIN 48*

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* an Interpretation of FASB Statement No. 109 (FIN 48), which clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109 (SFAS 109). FIN 48 clarifies the application of SFAS 109 by defining criteria that an individual tax position must meet for any part of the benefit of that position to be recognized in the financial statements. Additionally, FIN 48 provides guidance on the measurement, derecognition, classification and disclosure of tax positions, along with accounting for the related interest and penalties. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. SYSCO is currently evaluating the impact the adoption of FIN 48 will have on its consolidated financial statements.

SFAS 157

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The statement is effective for fiscal years beginning after November 15, 2007. The company is currently evaluating the impact of the provisions of SFAS 157.

SFAS 158

In September 2006, the FASB issued 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). SFAS 158 requires an employer to recognize a plan's funded status in its statement of financial position, measure a plan's assets and obligations as of the end of the employer's fiscal year and recognize the changes in a defined benefit postretirement plan's funded status in comprehensive income in the year in which the changes occur. SFAS 158's requirement to recognize the funded status of a benefit plan and new disclosure requirements are effective as of the end of fiscal years ending after December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. The company is currently evaluating the impact the adoption of SFAS 158 will have on its consolidated financial statements. The effect of adoption at June 30, 2007, SYSCO's adoption date, or any other future date, cannot be determined, since the impact is dependent upon on the measurements of each plan's assets and obligations at such date. However, if this standard had been applied at July 1, 2006, the result would have been an increase in current liabilities of approximately \$10,000,000, an increase in other long-term liabilities of approximately \$145,000,000, a decrease in prepaid pension cost of approximately \$160,000,000, a decrease in deferred taxes of approximately \$120,000,000 and a decrease in shareholders' equity of approximately \$195,000,000.

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4. Restricted Cash

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

In addition, for certain acquisitions, SYSCO has placed funds into escrow to be disbursed to the sellers in the event that specified operating results are attained or contingencies are resolved. Escrowed funds in the amount of \$2,500,000 related to certain acquisitions were released to sellers of acquired businesses during the first 26 weeks of fiscal 2007.

A summary of restricted cash balances appears below:

	Dec. 30, 2006	July 1, 2006	Dec. 31, 2005
Funds deposited in insurance trusts	\$ 91,333,000	\$ 82,653,000	\$ 81,402,000
Escrow funds related to acquisitions	21,120,000	19,621,000	21,321,000
Total	\$ 112,453,000	\$ 102,274,000	\$ 102,723,000

5. Debt

In September 2006, the termination date on the revolving credit facility supporting the company's U.S. and Canadian commercial paper programs was extended from November 4, 2010 to November 4, 2011 in accordance with the terms of the agreement.

As of December 30, 2006, SYSCO had uncommitted bank lines of credit which provide for unsecured borrowings for working capital of up to \$145,000,000, of which \$10,040,000 was outstanding as of December 30, 2006.

As of December 30, 2006, SYSCO's outstanding commercial paper issuances were \$530,997,000 and were classified as long-term debt since the company's commercial paper programs are supported by its long-term revolving credit facility in the amount of \$750,000,000.

During the 26-week period ended December 30, 2006, the aggregate of commercial paper issuances and short-term bank borrowings ranged from approximately \$372,762,000 to \$703,072,000.

Included in current maturities of long-term debt at December 30, 2006 are the 7.25% senior notes due April 2007 totaling \$100,000,000. It is the company's intention to fund the repayment of these notes at maturity through issuances of commercial paper, senior notes or a combination thereof.

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6. Employee Benefit Plans

The components of net benefit cost for the 26-week periods presented are as follows:

	Pension Benefits		Other Postretirement Plans	
	Dec. 30, 2006	Dec. 31, 2005	Dec. 30, 2006	Dec. 31, 2005
Service cost	\$ 42,328,000	\$ 50,014,000	\$ 226,000	\$ 256,000
Interest cost	45,656,000	41,802,000	266,000	236,000
Expected return on plan assets	(58,372,000)	(52,088,000)		
Amortization of prior service cost	2,843,000	2,466,000	101,000	101,000
Recognized net actuarial loss (gain)	4,844,000	23,102,000	(66,000)	(8,000)
Amortization of net transition obligation			76,000	76,000
Net periodic benefit cost	\$ 37,299,000	\$ 65,296,000	\$ 603,000	\$ 661,000

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

	Pension Benefits		Other Postretirement Plans	
	Dec. 30, 2006	Dec. 31, 2005	Dec. 30, 2006	Dec. 31, 2005
Service cost	\$ 21,164,000	\$ 25,007,000	\$ 113,000	\$ 128,000
Interest cost	22,827,000	20,901,000	133,000	118,000
Expected return on plan assets	(29,186,000)	(26,044,000)		
Amortization of prior service cost	1,423,000	1,233,000	51,000	51,000
Recognized net actuarial loss (gain)	2,422,000	11,551,000	(33,000)	(4,000)
Amortization of net transition obligation			38,000	38,000
Net periodic benefit cost	\$ 18,650,000	\$ 32,648,000	\$ 302,000	\$ 331,000

SYSCO's contributions to its defined benefit plans were \$45,491,000 and \$69,117,000 during the 26-week periods ended December 30, 2006 and December 31, 2005, respectively.

Although contributions to its qualified pension plan (Retirement Plan) are not required to meet ERISA minimum funding requirements, the company anticipates it will make voluntary contributions of approximately \$80,000,000 during fiscal 2007. The company's contributions to the Supplemental Executive Retirement Plan (SERP) and other post-retirement plans are made in the amounts needed to fund current year benefit payments. The estimated fiscal 2007 contributions to fund benefit payments for the SERP and other post-retirement plans are \$10,300,000 and \$300,000, respectively.

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7. Earnings Per Share

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

	26-Week Period Ended		13-Week Period Ended	
	Dec. 30, 2006 (*restated)	Dec. 31, 2005	Dec. 30, 2006 (*restated)	Dec. 31, 2005
Numerator:				
Earnings before cumulative effect of accounting change	\$ 476,686,000	\$ 403,392,000	\$ 246,538,000	\$ 204,182,000
Cumulative effect of accounting change		9,285,000		
Net earnings	\$ 476,686,000	\$ 412,677,000	\$ 246,538,000	\$ 204,182,000
Denominator:				
Weighted-average basic shares outstanding	619,642,963	623,470,638	619,158,876	620,137,592
Dilutive effect of employee and director stock options	7,134,078	7,925,548	9,270,965	7,010,222
Weighted-average diluted shares outstanding	626,777,041	631,396,186	628,429,841	627,147,814
Basic earnings per share:				
Earnings before cumulative effect of accounting change	\$ 0.77	\$ 0.65	\$ 0.40	\$ 0.33
Cumulative effect of accounting change		0.01		
Net earnings	\$ 0.77	\$ 0.66	\$ 0.40	\$ 0.33
Diluted earnings per share:				
Earnings before cumulative effect of accounting change	\$ 0.76	\$ 0.64	\$ 0.39	\$ 0.33
Cumulative effect of accounting change		0.01		
Net earnings	\$ 0.76	\$ 0.65	\$ 0.39	\$ 0.33

* See Note 1
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The number of options that were not included in the diluted earnings per share calculation because the effect would have been anti-dilutive was approximately 23,000,000 for both the first 26 weeks of fiscal 2007 and 2006. The number of options that were not included in the diluted earnings per share calculation because the effect would

have been anti-dilutive was approximately 14,000,000 and 29,000,000 for the second quarter of fiscal 2007 and 2006, respectively.

8. Share-Based Compensation

SYSCO provides compensation benefits to employees and non-employee directors under several share-based payment arrangements including the 2004 Stock Option Plan, the 2005 Non-Employee Directors Stock Plan, the Employees Stock Purchase Plan and the Management Incentive Plans.

SYSCO accounts for share-based compensation using the fair value recognition provisions of FASB Statement No. 123(R), Share-Based Payment (SFAS 123(R)), which it adopted using the modified-prospective transition method effective July 3, 2005.

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Stock Option Plans

SYSCO's 2004 Stock Option Plan was adopted in fiscal 2005 and reserved 23,500,000 shares of SYSCO common stock for grants of options and dividend equivalents to directors, officers and other employees of the company and its subsidiaries at the fair market value (as defined in the plan) at the date of grant. Options to purchase 6,504,200 and 4,827,500 shares were granted to employees in the first 26 weeks of fiscal 2007 and 2006, respectively.

SYSCO's 2005 Non-Employee Directors Stock Plan was adopted in fiscal 2006 and reserved 550,000 shares of common stock for grants to non-employee directors in the form of options, stock grants, restricted stock units and dividend equivalents. In the first 26 weeks of fiscal 2007, options to purchase 35,000 shares and 30,000 shares of restricted stock were granted to non-employee directors. In the first 26 weeks of fiscal 2006, options to purchase 31,500 shares and 27,000 shares of restricted stock were granted to non-employee directors.

The fair value of each option award is estimated as of the date of grant using a Black-Scholes option pricing model. The weighted average grant-date fair value per share of options granted during the 26-week periods ended December 30, 2006 and December 31, 2005 was \$6.85 and \$7.83, respectively.

Employees' Stock Purchase Plan

SYSCO's Employees' Stock Purchase Plan permits employees to invest by means of periodic payroll deductions in SYSCO common stock at 85% of the closing price on the last business day of each calendar quarter. Shares of SYSCO common stock purchased by plan participants during the first 26 weeks of fiscal 2007 and 2006 were 900,987 and 910,623, respectively.

The weighted average fair value per share of employee stock purchase rights issued pursuant to the Employees' Stock Purchase Plan was \$4.79 and \$5.03 during the first 26 weeks of fiscal 2007 and 2006, respectively. The fair value of the stock purchase rights was calculated as the difference between the stock price and the employee purchase price.

Management Incentive Compensation

SYSCO's Management Incentive Plans compensate key management personnel for specific performance achievements. The bonuses earned and expensed under these plans during a fiscal year are paid in the following fiscal year in both cash and stock, and a portion of the bonus may be deferred for payment in future years at the election of each participant.

A total of 323,822 shares and 617,637 shares at a fair value per share of \$30.56 and \$36.25 were issued pursuant to these plans in the first quarter of fiscal 2007 and fiscal 2006, respectively, for bonuses earned in the preceding fiscal years.

All Share-Based Payment Arrangements

The total share-based compensation cost that has been recognized in results of operations was \$49,916,000 and \$74,168,000 for the first 26 weeks of fiscal 2007 and fiscal 2006, respectively. The total income tax benefit recognized in results of operations for share-based compensation arrangements was \$8,901,000 and \$11,370,000 for the first 26 weeks of fiscal 2007 and fiscal 2006, respectively.

The total share-based compensation cost that has been recognized in results of operations was \$20,295,000 and \$32,888,000 for the second quarter of fiscal 2007 and fiscal 2006,

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respectively. The total income tax benefit recognized in results of operations for share-based compensation arrangements was \$5,631,000 and \$5,370,000 for the second quarter of fiscal 2007 and fiscal 2006, respectively.

As of December 30, 2006, there was \$114,343,000 of total unrecognized compensation cost related to share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of three years.

9. Income Taxes

Reflected in the changes in the net deferred tax liability and prepaid/accrued income tax balances from July 1, 2006 to December 30, 2006 is the reclassification of deferred tax liabilities to accrued income taxes related to supply chain distributions. This reclassification reflects the tax payments to be made during the next twelve months related to previously deferred supply chain distributions.

The effective tax rate for the first 26 weeks of fiscal 2007 was 38.4%, a decrease from the effective tax rate of 40.0% for the first 26 weeks of fiscal 2006. The decrease in the effective tax rate was primarily due to lower share-based compensation expense in fiscal 2007. SYSCO recorded a tax benefit of \$8,901,000, or 17.8% of the total \$49,916,000 in share-based compensation expense recorded in the 26-week period ended December 30, 2006. SYSCO recorded a tax benefit of \$11,370,000, or 15.3% of the total \$74,168,000 in share-based compensation expense recorded in the 26-week period ended December 31, 2005.

The effective tax rate for the second quarter of fiscal 2007 was 38.0%, a decrease from the effective tax rate of 39.6% for the second quarter of fiscal 2006. The decrease in the effective tax rate was primarily due to lower share-based compensation expense in fiscal 2007. SYSCO recorded a tax benefit of \$5,631,000, or 27.7% of the total \$20,295,000 in share-based compensation expense recorded in the 13-week period ended December 30, 2006. SYSCO recorded a tax benefit of \$5,370,000, or 16.3% of the total \$32,888,000 in share-based compensation expense recorded in the 13-week period ended December 31, 2005.

The determination of the company's overall effective tax rate requires the use of estimates. The effective tax rate reflects a combination of income earned and taxed in the various U.S. federal and state, as well as Canadian federal and provincial, jurisdictions. Jurisdictional tax law changes, increases/decreases in permanent differences between book and tax items, tax credits and the company's change in earnings from these taxing jurisdictions all affect the overall effective tax rate.

As of December 30, 2006, the company's 2003 and 2004 federal income tax returns were under audit by the Internal Revenue Service (IRS). The company has recorded a liability of approximately \$13,000,000 for its best estimate of the adjustment on certain positions which have been challenged by the IRS. This represents an increase of \$3,000,000 from the liability of \$10,000,000 recorded as of July 1, 2006. While the company believes that it has appropriate support for the other positions taken on these returns, if the IRS disagrees with positions taken by the company on its tax returns, SYSCO could have additional tax liability, including interest and penalties in addition to the amounts already recorded.

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10. Acquisitions

During the first 26 weeks of fiscal 2007, the company paid cash of \$44,618,000 for acquisitions made during fiscal 2007 and for contingent consideration related to operations acquired in previous fiscal years. In addition, escrowed funds in the amount of \$2,500,000 related to certain acquisitions were released to sellers of previously acquired businesses during the first 26 weeks of fiscal 2007.

Certain acquisitions involve contingent consideration typically payable only in the event that specified operating results are attained or certain outstanding contingencies are resolved. Aggregate contingent consideration amounts outstanding as of December 30, 2006 included \$126,347,000 in cash, which, if distributed, could result in the recording of additional goodwill. Such amounts are to be paid out over periods of up to four years from the date of acquisition if the contingent criteria are met.

11. Contingencies

SYSCO is engaged in various legal proceedings which have arisen but have not been fully adjudicated. These proceedings, in the opinion of management, will not have a material adverse effect upon the consolidated financial statements of the company when ultimately concluded.

Multi-Employer Pension Plans

SYSCO contributes to several multi-employer defined benefit pension plans based on obligations arising under collective bargaining agreements covering union-represented employees. Approximately 10% of SYSCO's current employees are participants in such multi-employer plans. In fiscal 2006, total contributions to these plans were approximately \$29,796,000. During the first 26 weeks of fiscal 2007, total contributions to these plans were approximately \$15,735,000.

SYSCO does 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 from plan administrators, management believes that some of these multi-employer plans are under-funded 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 2008. As a result, SYSCO's required contributions to these plans may increase in the future.

Under current law regarding multi-employer defined benefit plans, a plan's termination, SYSCO's voluntary withdrawal, or the mass withdrawal of all contributing employers from any under-funded multi-employer defined benefit plan would require SYSCO to make payments to the plan for SYSCO's proportionate share of the multi-employer plan's unfunded vested liabilities. SYSCO does not believe that it is probable that there will be a mass withdrawal of employers from the plan or that any of the plans will terminate in the near future. In addition, if a multi-employer defined benefit plan fails to satisfy certain minimum funding requirements, the Internal Revenue Service may impose a nondeductible excise tax of 5% on the amount of the accumulated funding deficiency for those employers contributing to the fund.

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Based on the information available from plan administrators, SYSCO estimates that its share of withdrawal liability on all the multi-employer plans it participates in could be as much as \$130,000,000.

BSCC Cooperative Structure

SYSCO's affiliate, BSCC, is a cooperative for income tax purposes. SYSCO believes 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, SYSCO could be required to accelerate the payment of all or a portion of its income tax liabilities associated with BSCC that it otherwise has deferred until future periods and be liable for interest on such amounts. As of December 30, 2006, SYSCO has recorded deferred income tax liabilities of \$680,000,000 related to BSCC supply chain distributions. This amount represents the income tax liabilities related to BSCC that were accrued, but for which payment had been deferred as of December 30, 2006. In addition, if it was determined that all amounts since the inception of BSCC were inappropriately deferred, SYSCO estimates that the total interest that would be payable on the cumulative deferred balances could be as much as \$185,000,000, prior to federal income tax benefit, as of December 30, 2006. SYSCO calculated this amount based upon the amounts deferred since the inception of BSCC applying the IRS interest rates in effect each period. SYSCO believes that the interest is not a probable liability and, accordingly, has not recorded any related amount in any period.

12. Business Segment Information

The company has aggregated its operating companies into a number of segments, of which only Broadline and SYGMA are reportable segments as defined in SFAS No. 131, Disclosures about Segments of an Enterprise and Related Information. Broadline operating companies distribute a full line of food products and a wide variety of non-food products to both traditional and chain restaurant customers. SYGMA operating companies distribute a full line of food products and a wide variety of non-food products to some of the chain restaurant customer locations. Other financial information is attributable to the company's other segments, including the company's specialty produce, custom-cut meat and lodging industry segments and a company that distributes to internationally located chain restaurants.

Intersegment sales represent specialty produce and meat company products distributed by the Broadline and SYGMA operating companies. The segment results include allocation of centrally incurred costs for shared services that are eliminated upon consolidation. Centrally incurred costs are allocated based upon the relative level of service used by each operating company. The company does not allocate to its segments share-based compensation expense related to stock option grants, issuances of stock pursuant to the Employees Stock Purchase Plan and restricted stock grants.

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	26-Week Period Ended		13-Week Period Ended	
	Dec. 30, 2006	Dec. 31, 2005	Dec. 30, 2006	Dec. 31, 2005
Sales (in thousands):				
Broadline	\$ 13,554,116	\$ 12,711,327	\$ 6,709,294	\$ 6,307,760
SYGMA	2,158,171	2,027,259	1,086,094	1,018,821
Other	1,761,616	1,431,127	892,801	746,155
Intersegment sales	(233,083)	(188,168)	(119,441)	(101,675)
Total	\$ 17,240,820	\$ 15,981,545	\$ 8,568,748	\$ 7,971,061

	26-Week Period Ended		13-Week Period Ended	
	Dec. 30, 2006 (*restated)	Dec. 31, 2005	Dec. 30, 2006 (*restated)	Dec. 31, 2005
Earnings before income taxes and cumulative effect of accounting change (in thousands):				
Broadline	\$ 819,997	\$ 747,217	\$ 408,891	\$ 370,753
SYGMA	5,781	(3,300)	4,334	(513)
Other	61,808	57,901	33,343	33,204
Total segments	887,586	801,818	446,568	403,444
Unallocated corporate expenses	(114,089)	(130,082)	(48,677)	(65,612)
Total	\$ 773,497	\$ 671,736	\$ 397,891	\$ 337,832

	Dec. 30, 2006 (*restated)	July 1, 2006	Dec. 31, 2005
	Assets (in thousands):		
Broadline	\$ 5,448,037	\$ 5,248,223	\$ 5,187,216
SYGMA	377,048	359,116	339,463
Other	906,145	832,223	750,118
Total segments	6,731,320	6,439,562	6,276,797
Corporate	2,586,150	2,552,463	2,533,390
Total	\$ 9,317,380	\$ 8,992,025	\$ 8,810,187

* See Note 1
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13. Supplemental Guarantor Information

SYSCO International, Co. is an unlimited liability company organized under the laws of the Province of Nova Scotia, Canada and is a wholly-owned subsidiary of SYSCO. In May 2002, SYSCO International, Co. issued, in a private offering, \$200,000,000 of 6.10% notes due in 2012. These notes are fully and unconditionally guaranteed by SYSCO.

The following condensed consolidating financial statements present separately the financial position, results of operations and cash flows of the parent guarantor (SYSCO), the subsidiary issuer (SYSCO International) and all other non-guarantor subsidiaries of SYSCO (Other Non-Guarantor Subsidiaries) on a combined basis and eliminating entries.

Condensed Consolidating Balance Sheet**December 30, 2006**

(*restated)

Other

	SYSCO	SYSCO International	Non-Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated Totals
Current assets	\$ 179,844	\$ 12	\$ 4,344,883	\$	\$ 4,524,739
Investment in subsidiaries	11,939,935	317,203	150,730	(12,407,868)	
Plant and equipment, net	187,257		2,406,617		2,593,874
Other assets	752,294		1,446,473		2,198,767
Total assets	\$ 13,059,330	\$ 317,215	\$ 8,348,703	\$ (12,407,868)	\$ 9,317,380
Current liabilities	\$ 408,181	\$ 1,018	\$ 2,834,028	\$	\$ 3,243,227
Intercompany payables (receivables)	7,486,181	16,994	(7,503,175)		
Long-term debt	1,482,019	233,094	40,869		1,755,982
Other liabilities	532,062		549,462		1,081,524
Shareholders' equity	3,150,887	66,109	12,427,519	(12,407,868)	3,236,647
Total liabilities and shareholders' equity	\$ 13,059,330	\$ 317,215	\$ 8,348,703	\$ (12,407,868)	\$ 9,317,380

* See Note 1
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Condensed Consolidating Balance Sheet**July 1, 2006****SYSCO****Consolidated**

	SYSCO	International	Other Non-Guarantor Subsidiaries (In thousands)	Eliminations	Totals
Current assets	\$ 162,177	\$ 35	\$ 4,237,482	\$	\$ 4,399,694
Investment in subsidiaries	11,282,232	317,812	125,433	(11,725,477)	
Plant and equipment, net	174,020		2,290,880		2,464,900
Other assets	711,056		1,416,375		2,127,431
Total assets	\$ 12,329,485	\$ 317,847	\$ 8,070,170	\$ (11,725,477)	\$ 8,992,025
Current liabilities	\$ 331,417	\$ 1,022	\$ 2,893,964	\$	\$ 3,226,403
Intercompany payables (receivables)	7,207,923	38,308	(7,246,231)		
Long-term debt	1,358,452	224,247	44,428		1,627,127
Other liabilities	487,858		598,353		1,086,211
Shareholders' equity	2,943,835	54,270	11,779,656	(11,725,477)	3,052,284
Total liabilities and shareholders' equity	\$ 12,329,485	\$ 317,847	\$ 8,070,170	\$ (11,725,477)	\$ 8,992,025

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**Condensed Consolidating Balance Sheet
December 31, 2005**

	SYSCO	SYSCO International	Other Non-Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated Totals
Current assets	\$ 200,162	\$ 12	\$ 4,152,077	\$	\$ 4,352,251
Investment in subsidiaries	10,581,888	304,541	139,897	(11,026,326)	
Plant and equipment, net	128,456		2,215,967		2,344,423
Other assets	746,014		1,367,499		2,113,513
Total assets	\$ 11,656,520	\$ 304,553	\$ 7,875,440	\$ (11,026,326)	\$ 8,810,187
Current liabilities	\$ 458,886	\$ 32,886	\$ 2,649,401	\$	\$ 3,141,173
Intercompany payables (receivables)	6,440,775	23,961	(6,464,736)		
Long-term debt	1,582,053	199,592	45,941		1,827,586
Other liabilities	552,753		577,418		1,130,171
Shareholders' equity	2,622,053	48,114	11,067,416	(11,026,326)	2,711,257
Total liabilities and shareholders' equity	\$ 11,656,520	\$ 304,553	\$ 7,875,440	\$ (11,026,326)	\$ 8,810,187

**Condensed Consolidating Results of Operations
For the 26-Week Period Ended December 30, 2006
(*restated)**

	SYSCO	SYSCO International	Other Non-Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated Totals
Sales	\$	\$	\$ 17,240,820	\$	\$ 17,240,820
Cost of sales			13,918,115		13,918,115
Operating expenses	101,121	63	2,406,665		2,507,849
Interest expense (income)	199,724	6,040	(151,992)		53,772
Other, net	(7,168)		(5,245)		(12,413)
Total costs and expenses	293,677	6,103	16,167,543		16,467,323
Earnings (losses) before income taxes and cumulative effect of accounting change	(293,677)	(6,103)	1,073,277		773,497
Income tax (benefit) provision	(118,746)	(2,377)	417,934		296,811
Equity in earnings of subsidiaries	651,617	11,792		(663,409)	

Net earnings	\$ 476,686	\$ 8,066	\$ 655,343	\$ (663,409)	\$ 476,686
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* See Note 1
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**Condensed Consolidating Results of Operations
For the 26-Week Period Ended December 31, 2006**

	SYSCO	SYSCO International	Other Non-Guarantor Subsidiaries (In thousands)	Eliminations	Consolidated Totals
Sales	\$	\$	\$ 15,981,545	\$	\$ 15,981,545
Cost of sales			12,915,546		12,915,546
Operating expenses	118,894	67	2,229,164		2,348,125
Interest expense (income)	176,344	5,373	(130,244)		51,473
Other, net	(1,232)		(4,103)		(5,335)
Total costs and expenses	294,006	5,440	15,010,363		15,309,809
Earnings (losses) before income taxes and cumulative effect of accounting change	(294,006)	(5,440)	971,182		671,736
Income tax (benefit) provision	(93,810)	(2,040)	364,194		268,344
Equity in earnings of subsidiaries	603,588	4,148		(607,736)	
Net earnings before cumulative effect of accounting change	403,392	748	606,988	(607,736)	403,392
Cumulative effect of accounting change	9,285				9,285
Net earnings	\$ 412,677	\$ 748	\$ 606,988	\$ (607,736)	\$ 412,677

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Condensed Consolidating Results of Operations
13-Week Period Ended December 30, 2006
 (*restated)

	SYSCO	SYSCO International	Other Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
	(In thousands)				
Sales	\$	\$	\$ 8,568,748	\$	\$ 8,568,748
Cost of sales			6,915,259		6,915,259
Operating expenses	39,652	31	1,191,284		1,230,967
Interest expense (income)	101,446	3,316	(76,756)		28,006
Other, net	(739)		(2,636)		(3,375)
Total costs and expenses	140,359	3,347	8,027,151		8,170,857
Earnings (losses) before income taxes	(140,359)	(3,347)	541,597		397,891
Income tax (benefit) provision	(58,611)	(1,306)	211,270		151,353
Equity in earnings of Subsidiaries	328,286	6,116		(334,402)	
Net earnings	\$ 246,538	\$ 4,075	\$ 330,327	\$ (334,402)	\$ 246,538

* See Note 1
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Condensed Consolidating Results of Operations
13-Week Period Ended December 31, 2005
 Other

	SYSCO	SYSCO International	Other Non-Guarantor Subsidiaries	Eliminations	Consolidated Totals
	(In thousands)				
Sales	\$	\$	\$ 7,971,061	\$	\$ 7,971,061
Cost of sales			6,434,753		6,434,753
Operating expenses	59,228	39	1,112,202		1,171,469
Interest expense (income)	91,686	2,156	(64,615)		29,227
Other, net	(555)		(1,665)		(2,220)
Total costs and expenses	150,359	2,195	7,480,675		7,633,229
Earnings (losses) before income taxes	(150,359)	(2,195)	490,386		337,832

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Income tax (benefit) provision	(49,423)	(823)	183,896		133,650
Equity in earnings of Subsidiaries	305,118	920		(306,038)	
Net earnings (loss)	\$ 204,182	\$ (452)	\$ 306,490	\$ (306,038)	\$ 204,182

Condensed Consolidating Cash Flows
26-Week Period Ended December 30, 2006

	SYSCO	SYSCO International	Other Non-Guarantor Subsidiaries	Consolidated Totals
	(In thousands)			
Net cash provided by (used for):				
Operating activities	\$ (44,879)	\$ (3,707)	\$ 588,766	\$ 540,180
Investing activities	(42,050)		(318,189)	(360,239)
Financing activities	(199,243)	8,847	(3,648)	(194,044)
Effect of exchange rate on cash			(1,932)	(1,932)
Intercompany activity	274,448	(5,140)	(269,308)	
Net decrease in cash	(11,724)		(4,311)	(16,035)
Cash at the beginning of the period	131,275		70,622	201,897
Cash at the end of the period	\$ 119,551	\$	\$ 66,311	\$ 185,862

Condensed Consolidating Cash Flows
26-Week Period Ended December 31, 2005

	SYSCO	SYSCO International	Other Non-Guarantor Subsidiaries	Consolidated Totals
	(In thousands)			
Net cash provided by (used for):				
Operating activities	\$ (75,383)	\$ (3,640)	\$ 390,574	\$ 311,551
Investing activities	(20,062)		(256,054)	(276,116)
Financing activities	32,330	(1,152)	(3,061)	28,117
Effect of exchange rate on cash			(1,292)	(1,292)
Intercompany activity	101,283	4,792	(106,075)	
Net increase in cash	38,168		24,092	62,260
Cash at the beginning of the period	125,748		65,930	191,678
Cash at the end of the period	\$ 163,916	\$	\$ 90,022	\$ 253,938

Table of Contents**Item 2. *Management's Discussion and Analysis of Financial Condition and Results of Operations***

Unless this Form 10-Q/A indicates otherwise or the context otherwise requires, the terms we, our, us, or SYSCO as used in this Form 10-Q/A refer to Sysco Corporation together with our consolidated subsidiaries and divisions. This discussion should be read in conjunction with our consolidated financial statements as of July 1, 2006, and the fiscal year then ended, and Management's Discussion and Analysis of Financial Condition and Results of Operations, both contained in our Annual Report on Form 10-K for the fiscal year ended July 1, 2006.

Highlights***Results of Operations***

Sales increased 7.9% in the first 26 weeks and 7.5% in the second quarter of fiscal 2007 over the comparable prior year periods. Accounting pronouncement EITF 04-13 (see below) negatively impacted sales growth in fiscal 2007 by 1.1% in the first 26 weeks and 1.1% in the second quarter 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% in the first 26 weeks and 19.3% in the second quarter of fiscal 2007. Operating expenses as a percentage of sales for the first 26 weeks and the second quarter of fiscal 2007 decreased from the comparable prior year periods. The comparison of the two periods is impacted by decreased share-based compensation expense and decreased pension costs, offset by increased costs related to our strategy initiative, management incentive bonus accruals. Earnings before the cumulative effect of accounting change increased 18.2% for the first 26 weeks and 20.7% for the second quarter of fiscal 2007 over the comparable prior year period. Diluted earnings per share before the cumulative effect of accounting change increased 18.8% for the first 26 weeks and 18.2% for the second quarter of fiscal 2007 over the comparable prior year period.

Accounting Changes

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 our 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 impact of adopting this new standard resulted in sales being reduced by \$177,006,000 for the first 26 weeks of fiscal 2007 and \$85,474,000 in the second quarter of 2007. Cost of sales were also reduced by the same amount and thus net earnings are unaffected by the adoption of this standard. We adopted this accounting pronouncement beginning in the fourth quarter of fiscal 2006 and will apply it to similar transactions prospectively. Prior period's 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 periods are affected.

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.

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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 14% of an approximately \$232 billion annual market that includes the North American foodservice and hotel amenity, furniture and textile markets. 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.

National Supply Chain Project

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. The first regional distribution center (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. Preparation of the building site is complete and this facility is expected to be operational in fiscal 2008. In February 2006, we signed a memorandum of understanding to purchase the site for construction of a third RDC in Hamlet, Indiana.

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Strategy Initiative

Our executive team, with the approval of the Board of Directors, is undergoing a strategic planning process of the businesses and processes at SYSCO. This undertaking is a disciplined study of our current businesses and what initiatives may be required to help ensure our continued growth.

We have established a strategy team which is examining many aspects of our businesses with an initial emphasis on five strategic focus areas established to help us achieve our long-term vision of becoming the global leader of the efficient, multi-temperature food product value chain. These five areas will serve as the foundation in our efforts to ensure a sustainable future and identify areas for growth. Each area is staffed with full-time associates who are focused on the following:

The Sourcing Team is focusing on lowering our cost of goods sold by leveraging SYSCO's purchasing power and procurement expertise.

The Integrated Delivery Team's objective is working to optimize our current infrastructure in order to reduce costs and provide a growth platform in North America.

The Demand Team is developing strategies to better understand and more profitably sell to and service SYSCO's customers.

The Organizational Capabilities Team is working to align management reporting systems and metrics with the new strategic priorities.

The New Growth Team is exploring potential new markets and acquisitions and enhancing the processes for evaluating and integrating them with existing operations.

Our primary focus will be on growing and optimizing the core foodservice distribution business in North America. To a lesser extent, we will also explore and identify opportunities to grow our global capabilities over time.

We are in the process of testing the first strategic initiatives over the next several quarters. The Sourcing team recently began a trial of sourcing a relatively small number of products in order to better understand the outcomes and practices required for us to procure product in a more coordinated effort. The Integrated Delivery team is pilot-testing processes to optimize warehousing and delivery activities to achieve a more efficient delivery of products to our customers.

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Results of Operations

The following table sets forth the components of the Results of Operations expressed as a percentage of sales for the periods indicated:

	26-Week Period Ended		13-Week Period Ended	
	Dec. 30, 2006	Dec. 31, 2005	Dec. 30, 2006	Dec. 31, 2005
Sales	100.0%	100.0%	100.0%	100.0%
Costs and Expenses				
Cost of sales	80.7	80.8	80.7	80.7
Operating expenses	14.5	14.7	14.4	14.7
Interest expense	0.3	0.3	0.3	0.4
Other, net	0.0	0.0	0.0	0.0
Total costs and expenses	95.5	95.8	95.4	95.8
Earnings before income taxes and cumulative effect of accounting change	4.5	4.2	4.6	4.2
Income taxes	1.7	1.7	1.7	1.7
Earnings before cumulative effect of accounting change	2.8	2.5	2.9	2.6
Cumulative effect of accounting change		0.1		
Net earnings	2.8%	2.6%	2.9%	2.6%

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The following table sets forth the change in the components of the Results of Operations expressed as a percentage increase or decrease over the comparable period in the prior year:

	26-Week Period	13-Week Period
Sales	7.9%	7.5%
Costs and Expenses		
Cost of sales	7.8	7.5
Operating expenses	6.8	5.1
Interest expense	4.5	(4.2)
Other, net	132.7	52.0
Total costs and expenses	7.6	7.0
Earnings before income taxes and cumulative effect of accounting change	15.1	17.8
Income taxes	10.6	13.2
Earnings before cumulative effect of accounting change	18.2	20.7
Cumulative effect of accounting change		
Net earnings	15.5%	20.7%
Earnings before cumulative effect of accounting change:		
Basic earnings per share	18.5%	21.2%
Diluted earnings per share	18.8	18.2
Net earnings:		
Basic earnings per share	16.7	21.2
Diluted earnings per share	16.9	18.2
Average shares outstanding	(0.6)	(0.2)
Diluted shares outstanding	(0.7)	0.2

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Sales

Sales increased 7.9% for the first 26 weeks and 7.5% for the second quarter of fiscal 2007 over the comparable periods of the prior year. The application of EITF 04-13 negatively impacted sales growth in the first 26 weeks of fiscal 2007 by 1.1%, or \$177,006,000, and the second quarter of fiscal 2007 by 1.1%, or \$85,474,000. Acquisitions contributed 1.0% to the overall sales growth rate for the first 26 weeks of fiscal 2007 and 1.0% for the second quarter of fiscal 2007. Estimated product cost increases, an internal measure of inflation, were 2.5% during the first 26 weeks and 2.6% during the second quarter of fiscal 2007, as compared to 0.4% during the first 26 weeks and 0.6% during the second quarter of 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. The number of customer contact personnel has increased by approximately 150 since the end of fiscal 2006.

Gross Margins

Gross margins as a percentage of sales were 19.3% for both the first 26 weeks and the second quarter of fiscal 2007, as compared to 19.2% for the first 26 weeks and 19.3% for the second quarter of fiscal 2006. The impact of EITF 04-13 contributed 0.2% to the increase in gross margins as a percentage of sales in both the first 26 weeks and second quarter of fiscal 2007. We believe that the decline in gross margins as a percentage of sales, prior to the benefit obtained from the impact of EITF 04-13, was primarily driven by estimated product cost increases of 2.5% during the first 26 weeks and 2.6% during the second quarter of fiscal 2007. Product cost increases have the impact of reducing gross margins as a percentage of sales over comparable prior year periods, as gross profit dollars are earned on a higher sales dollar base.

Operating Expenses

Operating expenses as a percentage of sales were 14.5% for the first 26 weeks and 14.4% for the second quarter of fiscal 2007, as compared to 14.7% for the comparable periods in the prior year. The impact of EITF 04-13 increased operating expenses as a percentage of sales by 0.2% for the first 26 weeks and 0.1% for the second quarter of fiscal 2007. The decrease in operating expenses as a percentage of sales was primarily attributable to decreases in share-based compensation expense and pension costs offset by increases in management incentive bonus accruals and investments in our strategy initiatives. Also impacting the expense comparisons are additional hurricane related expenses incurred in fiscal 2006.

Share-based compensation expense decreased \$24,252,000 and \$12,593,000 in the first 26 weeks and the second quarter of fiscal 2007 over the comparable prior year periods, 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 \$27,997,000 and \$13,998,000 in the first 26 weeks and the second quarter of fiscal 2007 over the comparable prior year periods, due primarily to the increase in the discount rate used to determine fiscal 2007 pension costs. Net pension costs for fiscal 2007 are expected to decrease by approximately \$55,000,000 over the prior year. The non-stock portion of management incentive bonus accruals increased \$24,000,000 and \$9,000,000 in the first 26 weeks and the second quarter of fiscal 2007 over the comparable prior year periods, due to improved operating results over last year. Investments in strategy initiatives were \$21,015,000 and \$11,571,000 in the first 26 weeks and the second quarter of fiscal 2007. Amounts in the prior comparable periods were minimal.

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Operating expenses were reduced by the recognition of a gain of \$11,247,000 in the first 26 weeks and \$9,852,000 in the second quarter of 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 \$8,126,000 in the first 26 weeks and \$3,518,000 in the second quarter of fiscal 2006.

Expense control measures and operating efficiencies reduced operating expenses as a percentage of sales. We also believe that product cost increases had some impact of reducing operating expenses as a percentage of sales over comparable prior year periods. Product cost increases have the effect of increasing sales whereas operating expenses do not increase at the same rate, resulting in a reduction in the expense ratio as compared to the prior year.

As a percentage of sales, fuel costs for the first 26 weeks and the second quarter of fiscal 2007 were comparable to the same prior year periods. In order to partially manage the volatility and uncertainty of fuel costs, from time to time, we may enter into forward purchase commitments for a portion of our projected diesel fuel requirements. As of December 30, 2006, outstanding forward diesel fuel purchase commitments total approximately \$89,000,000, which will fix the price on a significant portion of our fuel purchases through the end of calendar year 2007. These agreements meet the definition of a derivative. However, we elected to use the normal purchase and sale exemption available under relevant accounting literature, which allows us to account for these agreements on an accrual basis and thus they are not recorded at fair value.

Interest Expense

The increase in interest expense in the first 26 weeks of fiscal 2007 over the comparable period in fiscal 2006 was due to increased borrowing levels as well as increased interest rates.

The decrease in interest expense in the second quarter of fiscal 2007 over the comparable period in fiscal 2006 was due to decreased borrowings levels.

Other, Net

Changes between the periods result from fluctuations in various activities. The increase in the first 26 weeks of fiscal 2007 over the comparable prior year period is primarily due to a gain of approximately \$5,800,000 on the sale of land.

Income Taxes

The effective tax rate for the first 26 weeks of fiscal 2007 was 38.4%, a decrease from the effective tax rate of 40.0% for the first 26 weeks of fiscal 2006. The effective tax rate for the second quarter of fiscal 2007 was 38.0%, a decrease from the effective tax rate of 39.6% for the second quarter of fiscal 2006. The decreases in the effective tax rates were primarily due lower share-based compensation expense in fiscal 2007.

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Net Earnings

Earnings before the cumulative effect of accounting change increased 18.2% and 20.7% for the first 26 weeks and the second quarter of fiscal 2007, respectively, over the comparable periods of the prior year. The increase was due primarily to the factors discussed above.

Net earnings increased 15.5% and 20.7% for the first 26 weeks and the second quarter of fiscal 2007 over the comparable periods of the prior year. In addition to the impact of the factors discussed above, 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 the first 26 weeks of fiscal 2006 by \$9,285,000, net of tax.

Earnings Per Share

Basic earnings per share before the cumulative effect of accounting change increased 18.5% and 21.2%, in the first 26 weeks and the second quarter of fiscal 2007, respectively, over the comparable periods of the prior year. Diluted earnings per share before the cumulative effect of accounting change increased 18.8% and 18.2%, in the first 26 weeks and the second quarter of fiscal 2007, respectively, over the comparable periods of the prior year. These increases were due primarily to the factors discussed above.

Basic earnings per share increased 16.7% and 21.2%, in the first 26 weeks and the second quarter of fiscal 2007, respectively, over the comparable periods of the prior year. Diluted earnings per share increased 16.9% and 18.2%, in the first 26 weeks and the second quarter of fiscal 2007, respectively, over the comparable periods of the prior year. In addition to the factors discussed above, the comparison of basic and diluted earnings per share for the first 26 weeks of fiscal 2007 is impacted by the amounts recorded related to the cumulative effects of accounting change in the first quarter of fiscal 2006 (See Note 2, Changes in Accounting beginning on page 10 for further discussion).

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 comparable period in the prior year and should be read in conjunction with Note 12, Business Segment Information beginning on page 18:

	26-Week Period		13-Week Period	
	Sales	Earnings before taxes	Sales	Earnings before taxes
Broadline	6.6%	9.7%	6.4%	10.3%
SYGMA	6.5	(1)	6.6	(2)
Other	23.1	6.7	19.7	0.4

- (1) SYGMA had earnings before taxes of \$5,781,000 in the first 26 weeks of fiscal 2007 and a loss of \$3,300,000 in the first 26 weeks of fiscal 2006.

- (2) SYGMA had earnings before taxes of \$4,334,000 in the second quarter of fiscal 2007 and a loss of \$513,000 in the second quarter of fiscal 2006.
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The following table sets forth sales and earnings before income taxes of each of our reportable segments expressed as a percentage of the respective consolidated total and should be read in conjunction with Note 12, Business Segment Information beginning on page 18:

	26-Week Period Ended			
	Dec. 30, 2006		Dec. 31, 2005	
	Sales	Earnings before taxes	Sales	Earnings before taxes
Broadline	78.6%	106.0%	79.5%	111.2%
SYGMA	12.5	0.8	12.7	(0.5)
Other	10.2	8.0	9.0	8.6
Intersegment sales	(1.3)		(1.2)	
Unallocated corporate expenses		(14.8)		(19.3)
Total	100.0%	100.0%	100.0%	100.0%

	13-Week Period Ended			
	Dec. 30, 2006		Dec. 31, 2005	
	Sales	Earnings before taxes	Sales	Earnings before taxes
Broadline	78.3%	102.7%	79.1%	109.7%
SYGMA	12.7	1.1	12.8	(0.1)
Other	10.4	8.4	9.4	9.8
Intersegment sales	(1.4)		(1.3)	
Unallocated corporate expenses		(12.2)		(19.4)
Total	100.0%	100.0%	100.0%	100.0%

We do not allocate to our segments share-based compensation expense related to stock option grants, issuances of stock pursuant to the Employees Stock Purchase plan and restricted stock grants.

Broadline Segment

Broadline segment sales increased 6.6% for the first 26 weeks and 6.4% for the second quarter of fiscal 2007 over the comparable periods of the prior year. The application of EITF 04-13 negatively impacted sales growth in the first 26 weeks of fiscal 2007 by 0.8%, or \$96,901,000 and the second quarter of fiscal 2007 by 0.7%, or \$46,368,000. Acquisitions did not have an impact to the overall sales growth rate for the first 26 weeks or second quarter of fiscal 2007. The sales increases were primarily due to increased sales to multi-unit customers and marketing associate-served customers.

Marketing associate-served sales as a percentage of broadline sales in the U.S. were 53.2% and 52.8% for the first 26 weeks and second quarter of fiscal 2007, respectively, as compared to 56.4% and 55.9%, respectively, for the comparable prior year periods. SYSCO Brand sales as a percentage of broadline sales in the U.S. were 46.2% and 45.8% for the first 26 weeks and the second quarter of fiscal 2007, respectively, as compared to 48.7% and 48.3%, respectively, for the comparable prior year periods.

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Earnings before income taxes for the Broadline segment increased 9.7% for the first 26 weeks and 10.3% for the second quarter of fiscal 2007 over the comparable periods of the prior year. These increases in earnings before income taxes were primarily due to increases in sales partially offset by lower margins on certain products primarily resulting from product cost increases.

SYGMA Segment

SYGMA segment sales increased 6.5% for the first 26 weeks and 6.6% for the second quarter of fiscal 2007 over the comparable periods of the prior year. The application of EITF 04-13 negatively impacted sales growth in the first 26 weeks of fiscal 2007 by 3.9%, or \$79,831,000 and the second quarter of fiscal 2007 by 3.8%, or \$38,869,000. Acquisitions contributed 2.4% to the overall sales growth rate for the first 26 weeks of fiscal 2007 and 2.3% for the second quarter of fiscal 2007. The increase in sales was primarily 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.

Earnings before income taxes for the SYGMA segment increased to \$5,781,000 for the first 26 weeks of fiscal 2007 from the comparable prior period loss of \$3,300,000. Earnings before income taxes for the SYGMA segment increased to \$4,334,000 for the second quarter of fiscal 2007 over the comparable prior period loss of \$513,000. These increases in earnings before income taxes were due to several factors, including sales growth, increased margins and improved operating efficiencies partially offset by costs of labor.

Liquidity and Capital Resources

We may apply cash provided by operating activities, as supplemented by commercial paper issuances and other bank borrowings, towards investments in facilities, fleet and other equipment; cash dividends; acquisitions consistent with our overall growth strategy; and the share repurchase program.

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

Cash flow from operations in the first 26 weeks of fiscal 2007 was negatively impacted by increases in accounts receivable balances and inventory balances offset by an increase in accounts payable balances. Cash flow from operations in the first 26 weeks of fiscal 2006 was negatively impacted by increases in accounts receivable balances and inventory balances and a decrease in accounts payable balances.

The increase in accounts receivable balances in the first 26 weeks of fiscal 2007 and fiscal 2007 was primarily due to sales growth and change in customer mix. Due to normal seasonal patterns, sales to multi-unit customers represented a larger percentage of total SYSCO sales at the end of the first 26 weeks as compared to the end of the prior fiscal year.

Payment terms

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for multi-unit customers are traditionally longer than the overall SYSCO average. Accounts receivable days sales outstanding ratios for the two periods were comparable.

Inventory balances are impacted by many factors including current and anticipated sales volumes and changes in product mix, and purchases in anticipation of product availability and product cost increases. The company historically has experienced elevated inventory levels during the holiday period which occurs at end of the second quarter. Sales in the last weeks of the quarter are at lower volumes due to the holiday period, which can build inventory levels. In addition, purchasing levels are typically increased at the end of the quarter in anticipation of increased sales volumes from the re-opening of schools after the holiday period. These are the primary factors causing an increase in inventory balances from the end of the previous fiscal year to the end of the second quarter.

The amount that the inventory levels increased in fiscal 2007 was \$80,295,000 lower than the increase experienced in fiscal 2006. We believe that our inventory management efforts, together with the rollout of the Demand Planning and Inventory Management System (DPR System), has aided in reducing inventory levels. Inventory days sales outstanding ratios were improved as of December 2006 as compared to December 2005 across the company's operations, particularly in the Northeast region as a result of the improved efficiencies of the Northeast RDC together with the operating companies in the region.

Accounts payable balances are impacted by many factors including changes in product mix and changes in payment terms with vendors due to conversion to more efficient electronic payment methods and to cash discount terms. Cash flow from operations was also negatively impacted by the decrease in accrued expenses of \$21,205,000 for the first 26 weeks of fiscal 2007 and a decrease of \$30,287,000 for the first 26 weeks of fiscal 2006. These decreases were primarily due to the payment of prior year annual incentive bonuses. These were partially offset by accruals for current year incentives and to the payment of 401(k) matching contributions in the first quarter of each fiscal year. Other long-term liabilities and prepaid pension cost, net, decreased \$5,180,000 during the first 26 weeks of fiscal 2007 and increased \$9,534,000 during the first 26 weeks of fiscal 2006. The change in these accounts is primarily attributable to the recording of net pension costs and the timing of pension contributions. In the first 26 weeks of fiscal 2007, we recorded net pension costs of \$37,299,000 and contributed \$45,491,000 to our pension plans. In the first 26 weeks of fiscal 2006, we recorded net pension costs of \$65,296,000 and contributed \$69,117,000 to our pension plans.

Financing Activities

During the first 26 weeks of fiscal 2007, a total of 6,638,700 shares were repurchased at a cost of \$225,177,000, as compared to 14,187,800 shares at a cost of \$473,181,000 for the comparable period in fiscal 2006. An additional 2,500,000 shares at a cost of \$90,412,000 have been purchased through January 27, 2007, resulting in 10,200,200 shares remaining available for repurchase as authorized by the Board.

Dividends paid in the first 26 weeks of fiscal 2007 were \$210,528,000, or \$0.34 per share, as compared to \$188,159,000, or \$0.30 per share, in the comparable period of fiscal 2006. In November 2006, we declared our regular quarterly dividend for the third quarter of fiscal 2007, increasing it to \$0.19 per share, which was paid in January 2007.

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As of December 30, 2006, we had uncommitted bank lines of credit, which provide for unsecured borrowings for working capital of up to \$145,000,000, of which \$10,040,000 was outstanding at December 30, 2006. Such borrowings were \$5,255,000 as of January 27, 2007.

As of December 30, 2006, our outstanding commercial paper issuances were \$530,997,000. Such borrowings were \$627,681,000 as of January 27, 2007. During the 26-week period ended December 30, 2006, the aggregate of commercial paper and short-term bank borrowings ranged from approximately \$372,762,000 to \$703,072,000.

In September 2006, the termination date on the revolving credit facility supporting our U.S. and Canadian commercial paper programs was extended from November 4, 2010 to November 4, 2011 in accordance with the terms of the agreement.

Included in current maturities of long-term debt at December 30, 2006 are the 7.25% senior notes due April 2007 totaling \$100,000,000. It is our intention to fund the repayment of these notes at maturity through issuances of commercial paper, senior notes or a combination thereof.

Our long-term debt to capitalization ratio was 36.5% at December 30, 2006. For purposes of calculating this ratio, long-term debt includes both the current maturities and long-term portions.

Other Considerations

As discussed in Note 11, Contingencies, beginning on page 17, 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 \$130,000,000.

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, 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.

Our affiliate, BSCC, is a cooperative for income tax purposes. 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 be liable for interest on such amounts. As of December 30, 2006, we have recorded deferred

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income tax liabilities of \$680,000,000 related to BSCC supply chain distributions. This amount represents the income tax liabilities related to BSCC that were accrued, but for which payment had been deferred as of December 30, 2006. In addition, if it was determined that all amounts since the inception of BSCC were inappropriately deferred, we estimate that the total interest that would be payable on the cumulative deferred balances could be as much as \$185,000,000, prior to federal income tax benefit, as of December 30, 2006. We calculated this amount based upon the amounts deferred since the inception of BSCC applying the IRS interest rates in effect each period. We believe that the interest is not a probable liability and, accordingly, have not recorded any related amount in any period. Any unforeseen requirements to accelerate these 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 be required to cancel planned capital expenditures or share repurchases or a combination of these items.

Critical Accounting Policies

Critical accounting policies are those that are most important to the portrayal of our financial position and results of operations. These policies require management's most subjective judgments, often employing the use of estimates about the effect of matters that are inherently uncertain. SYSCO's most critical accounting policies include those that pertain to the allowance for doubtful accounts, self-insurance program, pension plans, income taxes, vendor consideration, accounting for business combinations and share-based compensation, which are described in Item 7 of our Annual Report on Form 10-K for the year ended July 1, 2006.

New Accounting Standards

In June 2006, the FASB issued FASB Interpretation No. 48, *Accounting for Uncertainty in Income Taxes* (an Interpretation of FASB Statement No. 109 (FIN 48)), which clarifies the accounting for uncertainty in income taxes recognized in accordance with FASB Statement No. 109 (SFAS 109). FIN 48 clarifies the application of SFAS 109 by defining criteria that an individual tax position must meet for any part of the benefit of that position to be recognized in the financial statements. Additionally, FIN 48 provides guidance on the measurement, derecognition, classification and disclosure of tax positions, along with accounting for the related interest and penalties. The provisions of FIN 48 are effective for fiscal years beginning after December 15, 2006, with the cumulative effect of the change in accounting principle recorded as an adjustment to opening retained earnings. We are currently evaluating the impact the adoption of FIN 48 will have on our consolidated financial statements.

In September 2006, the FASB issued SFAS No. 157, *Fair Value Measurements* (SFAS 157). SFAS 157 defines fair value, establishes a framework for measuring fair value in accordance with generally accepted accounting principles, and expands disclosures about fair value measurements. The statement is effective for fiscal years beginning after November 15, 2007. We are currently evaluating the impact of the provisions of SFAS 157.

In September 2006, the FASB issued 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). SFAS 158 requires an employer to recognize a plan's funded status in its statement of financial position, measure a plan's assets and obligations as of the end of the employer's fiscal year and recognize the changes in a defined benefit postretirement plan's funded status in comprehensive income in the year in which the changes occur. SFAS 158's requirement to recognize the funded status of a benefit plan and new disclosure requirements are effective as of the end of fiscal years ending after

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December 15, 2006. The requirement to measure plan assets and benefit obligations as of the date of the employer's fiscal year-end statement of financial position is effective for fiscal years ending after December 15, 2008. We are currently evaluating the impact the adoption of SFAS 158 will have on our consolidated financial statements. The effect of adoption at June 30, 2007, our adoption date, or any other future date, cannot be determined, since the impact is dependent upon on the measurements of each plan's assets and obligations at such date. However, if this standard had been applied at July 1, 2006, the result would have been an increase in current liabilities of approximately \$10,000,000, an increase in other long-term liabilities of approximately \$145,000,000, a decrease in prepaid pension cost of approximately \$160,000,000, a decrease in deferred taxes of approximately \$120,000,000 and a decrease in shareholders' equity of approximately \$195,000,000.

Forward-Looking Statements

Certain statements made herein are forward-looking statements under the Private Securities Litigation Reform Act of 1995. They include statements regarding expense trends; the impact of ongoing legal proceedings; the timing, expected cost savings and other long-term benefits of the National Supply Chain project and regional distribution centers; anticipated capital expenditures which may vary from projections; the ability to increase sales and market share and grow earnings; continued competitive advantages and positive results from growth initiatives; the potential for future success; pension plan contributions; the continuing impact of economic conditions on sales growth; growth strategies; SYSCO's ability to refinance current maturities of long-term debt; and our ability to meet our cash requirements while maintaining proper liquidity. These statements involve risks and uncertainties and are based on management's current expectations and estimates; actual results may differ materially. Those risks and uncertainties that could impact these statements include the risks relating to the foodservice distribution industry's relatively low profit margins and sensitivity to general economic conditions, including the current economic environment, increased fuel costs and consumer spending; SYSCO's leverage and debt risks; the successful completion of acquisitions and integration of acquired companies as well as the risk that acquisitions could require additional debt or equity financing and negatively impact our stock price or operating results; the effect of competition on us and our customers; the ultimate outcome of litigation; potential impact of product liability claims; the risk of interruption of supplies due to lack of long-term contracts, severe weather, work stoppages or otherwise; labor issues; construction schedules; management's allocation of capital and the timing of capital purchases; risks relating to the successful completion and operation of the national supply chain project including the Northeast Redistribution Center; the potential outcome of ongoing tax audits; and internal factors such as the ability to increase efficiencies, control expenses and successfully execute growth strategies. The expected impact of option expensing is based on certain assumptions regarding the number and fair value of options granted, resulting tax benefits and shares outstanding. The actual impact of option expensing could vary significantly to the extent actual results vary significantly from assumptions.

In addition, share repurchases could be affected by market prices for the company's securities as well as management's decision to utilize our capital for other purposes. Interest paid is impacted by capital and borrowing needs and changes in interest rates. The effect of market risks could be impacted by future borrowing levels and economic factors such as interest rates. For a more detailed discussion of these and other factors that could cause actual results to differ from those contained in the forward-looking statements, see the risk factors discussion contained in Part II, Item 1A of this Quarterly Report on Form 10-Q.

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Item 3. *Quantitative and Qualitative Disclosures about Market Risk*

We do not utilize financial instruments for trading purposes. Our use of debt directly exposes us to interest rate risk. Floating rate debt, for which the interest rate fluctuates periodically, exposes us to short-term changes in market interest rates. Fixed rate debt, for which the interest rate is fixed over the life of the instrument, exposes us to changes in market interest rates reflected in the fair value of the debt and to the risk we may need to refinance maturing debt with new debt at higher rates.

We manage our debt portfolio to achieve an overall desired position of fixed and floating rates and may employ interest rate swaps as a tool to achieve that goal. The major risks from interest rate derivatives include changes in interest rates affecting the fair value of such instruments, potential increases in interest expense due to market increases in floating interest rates and the creditworthiness of the counterparties in such transactions.

At December 30, 2006, we had outstanding \$530,997,000 of commercial paper issuances at variable rates of interest with maturities through March 23, 2007. Excluding commercial paper issuances, our long-term debt obligations at December 30, 2006 were \$1,330,062,000 and were primarily at fixed rates of interest.

In order to partially manage the volatility and uncertainty of fuel costs, from time to time, we may enter into forward purchase commitments for a portion of our projected diesel fuel requirements. As of December 30, 2006, outstanding forward diesel fuel purchase commitments total approximately \$89,000,000, which will fix the price on a substantial portion of our fuel purchases through the end of calendar year 2007.

Item 4. *Controls and Procedures*

SYSCO's management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of December 30, 2006. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC's rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding the required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of our disclosure controls and procedures as of December 30, 2006, our chief executive officer and chief financial officer concluded that, as of such date, SYSCO's disclosure controls and procedures were effective at the reasonable assurance level. No change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended December 30, 2006 that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

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PART II. OTHER INFORMATIONItem 6. *Exhibits*

- 3.1 Restated Certificate of Incorporation, incorporated by reference to Exhibit 3(a) to Form 10-K for the year ended June 28, 1997 (File No. 1-6544).
 - 3.2 Certificate of Amendment of Certificate of Incorporation increasing authorized shares, incorporated by reference to Exhibit 3(d) to Form 10-Q for the quarter ended January 1, 2000 (File No. 1-6544).
 - 3.3 Certificate of Amendment to Restated Certificate of Incorporation increasing authorized shares, incorporated by reference to Exhibit 3(e) to Form 10-Q for the quarter ended December 27, 2003 (File No. 1-6544).
 - 3.4 Form of Amended Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock, incorporated by reference to Exhibit 3(c) to Form 10-K for the year ended June 29, 1996 (File No. 1-6544).
 - 3.5 Amended and Restated Bylaws of Sysco Corporation dated February 8, 2002, incorporated by reference to Exhibit 3(b) to Form 10-Q for the quarter ended December 29, 2001 (File No. 1-6544).
 - 4.1 Senior Debt Indenture, dated as of June 15, 1995, between Sysco Corporation and First Union National Bank of North Carolina, Trustee, incorporated by reference to Exhibit 4(a) to Registration Statement on Form S-3 filed June 6, 1995 (File No. 33-60023).
 - 4.2 Second Supplemental Indenture, dated as of May 1, 1996, between Sysco Corporation and First Union National Bank of North Carolina, Trustee as amended, incorporated by reference to Exhibit 4(f) to Form 10-K for the year ended June 29, 1996 (File No. 1-6544).
 - 4.3 Third Supplemental Indenture, dated as of April 25, 1997, between Sysco Corporation and First Union National Bank of North Carolina, Trustee, incorporated by reference to Exhibit 4(g) to Form 10-K for the year ended June 28, 1997 (File No. 1-6544).
 - 4.4 Fourth Supplemental Indenture, dated as of April 25, 1997, between Sysco Corporation and First Union National Bank of North Carolina, Trustee, incorporated by reference to Exhibit 4(h) to Form 10-K for the year ended June 28, 1997 (File No. 1-6544).
 - 4.5 Fifth Supplemental Indenture, dated as of July 27, 1998 between Sysco Corporation and First Union National Bank, Trustee, incorporated by reference to Exhibit 4(h) to Form 10-K for the year ended June 27, 1998 (File No. 1-6544).
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- 4.6 Sixth Supplemental Indenture, including form of Note, dated April 5, 2002 between Sysco Corporation and Wachovia Bank, National Association (formerly First Union National Bank of North Carolina), as Trustee, incorporated by reference to Exhibit 4.1 to Form 8-K dated April 5, 2002 (File No. 1-6544).
- 4.7 Seventh Supplemental Indenture, including form of Note, dated March 5, 2004 between Sysco Corporation, as Issuer, and Wachovia Bank, National Association (formerly First Union National Bank of North Carolina), as Trustee, incorporated by reference to Exhibit 4(j) to Form 10-Q for the quarter ended March 27, 2004 (File No. 1-6544).
- 4.8 Eighth Supplemental Indenture, including form of Note, dated September 22, 2005 between Sysco Corporation, as Issuer, and Wachovia Bank, National Association, as Trustee, incorporated by reference to Exhibits 4.1 and 4.2 to Form 8-K filed on September 20, 2005 (File No. 1-6544).
- 4.9 Indenture dated May 23, 2002 between Sysco International, Co., Sysco Corporation and Wachovia Bank, National Association, incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-4 filed August 21, 2002 (File No. 333-98489).
- 10.1 Form of Retainer Stock Award Agreement under the 2005 Non-Employee Directors Stock Plan, incorporated by reference to Exhibit 10.1 to Form 8-K filed on November 15, 2006 (File No. 1-6544).
- *15.1 Report from Ernst & Young LLP dated May 3, 2007, re: unaudited financial statements.
- *15.2 Acknowledgment letter from Ernst & Young LLP.
- *31.1 CEO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- *31.2 CFO Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
- *32.1 CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
- *32.2 CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.

* Filed herewith.

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SYSCO CORPORATION
(Registrant)

By /s/ RICHARD J. SCHNIEDERS
Richard J. Schnieders
Chairman of the Board, Chief Executive
Officer and President

Date: May 7, 2007

By /s/ JOHN K. STUBBLEFIELD, JR.
John K. Stubblefield, Jr.
Executive Vice President, Finance and
Chief Financial Officer

Date: May 7, 2007

By /s/ G. MITCHELL ELMER
G. Mitchell Elmer
Vice President, Controller and Chief
Accounting Officer

Date: May 7, 2007

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EXHIBIT INDEX

NO.	DESCRIPTION
3.1	Restated Certificate of Incorporation, incorporated by reference to Exhibit 3(a) to Form 10-K for the year ended June 28, 1997 (File No. 1-6544).
3.2	Certificate of Amendment of Certificate of Incorporation increasing authorized shares, incorporated by reference to Exhibit 3(d) to Form 10-Q for the quarter ended January 1, 2000 (File No. 1-6544).
3.3	Certificate of Amendment to Restated Certificate of Incorporation increasing authorized shares, incorporated by reference to Exhibit 3(e) to Form 10-Q for the quarter ended December 27, 2003 (File No. 1-6544).
3.4	Form of Amended Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock, incorporated by reference to Exhibit 3(c) to Form 10-K for the year ended June 29, 1996 (File No. 1-6544).
3.5	Amended and Restated Bylaws of Sysco Corporation dated February 8, 2002, incorporated by reference to Exhibit 3(b) to Form 10-Q for the quarter ended December 29, 2001 (File No. 1-6544).
4.1	Senior Debt Indenture, dated as of June 15, 1995, between Sysco Corporation and First Union National Bank of North Carolina, Trustee, incorporated by reference to Exhibit 4(a) to Registration Statement on Form S-3 filed June 6, 1995 (File No. 33-60023).
4.2	Second Supplemental Indenture, dated as of May 1, 1996, between Sysco Corporation and First Union National Bank of North Carolina, Trustee as amended, incorporated by reference to Exhibit 4(f) to Form 10-K for the year ended June 29, 1996 (File No. 1-6544).
4.3	Third Supplemental Indenture, dated as of April 25, 1997, between Sysco Corporation and First Union National Bank of North Carolina, Trustee, incorporated by reference to Exhibit 4(g) to Form 10-K for the year ended June 28, 1997 (File No. 1-6544).
4.4	Fourth Supplemental Indenture, dated as of April 25, 1997, between Sysco Corporation and First Union National Bank of North Carolina, Trustee, incorporated by reference to Exhibit 4(h) to Form 10-K for the year ended June 28, 1997 (File No. 1-6544).
4.5	Fifth Supplemental Indenture, dated as of July 27, 1998 between Sysco Corporation and First Union National Bank, Trustee, incorporated by reference to Exhibit 4(h) to Form 10-K for the year ended June 27, 1998 (File No. 1-6544).
4.6	Sixth Supplemental Indenture, including form of Note, dated April 5, 2002 between Sysco Corporation and Wachovia Bank, National Association (formerly First Union National Bank of North Carolina), as Trustee, incorporated by reference to Exhibit 4.1 to Form 8-K dated April 5, 2002 (File No. 1-6544).

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NO.	DESCRIPTION
4.7	Seventh Supplemental Indenture, including form of Note, dated March 5, 2004 between Sysco Corporation, as Issuer, and Wachovia Bank, National Association (formerly First Union National Bank of North Carolina), as Trustee, incorporated by reference to Exhibit 4(j) to Form 10-Q for the quarter ended March 27, 2004 (File No. 1-6544).
4.8	Eighth Supplemental Indenture, including form of Note, dated September 22, 2005 between Sysco Corporation, as Issuer, and Wachovia Bank, National Association, as Trustee, incorporated by reference to Exhibits 4.1 and 4.2 to Form 8-K filed on September 20, 2005 (File No. 1-6544).
4.9	Indenture dated May 23, 2002 between Sysco International, Co., Sysco Corporation and Wachovia Bank, National Association, incorporated by reference to Exhibit 4.1 to Registration Statement on Form S-4 filed August 21, 2002 (File No. 333-98489).
10.1	Form of Retainer Stock Award Agreement under the 2005 Non-Employee Directors Stock Plan, incorporated by reference to Exhibit 10.1 to Form 8-K filed on November 15, 2006 (File No. 1-6544).
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*32.1	CEO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*32.2	CFO Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
*	Filed herewith.