SYSCO CORP
Form 10-K/A
May 15, 2001

1

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

FORM 10-K/A

(MARK ONE)
[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED JULY 1, 2000

OR

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

COMMISSION FILE NUMBER 1-6544

SYSCO CORPORATION
(Exact name of registrant as specified in its charter)

| | |
|---|---|
| DELAWARE<br>(State or other jurisdiction of incorporation or organization) | 74-1648137<br>(IRS employer identification number) |
| 1390 ENCLAVE PARKWAY<br>HOUSTON, TEXAS<br>(Address of principal executive offices) | 77077-2099<br>(Zip Code) |

Registrant's Telephone Number, Including Area Code: (281) 584-1390

Securities Registered Pursuant to Section 12(b) of the Act:

| TITLE OF EACH CLASS | NAME OF EACH EXCHANGE ON WHICH REGISTERED |
|---|---|
| Common Stock, $1.00 par value | New York Stock Exchange |
| Preferred Stock Purchase Rights | New York Stock Exchange |

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

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 [X] No [ ]

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

The aggregate market value of the voting stock of the registrant held by stockholders who were not affiliates (as defined by regulations of the Securities and Exchange Commission) of the registrant was approximately $13,855,134,000 at September 8, 2000 (based on the closing sales price on the New York Stock Exchange Composite Tape on September 8, 2000, as reported by The Wall Street Journal (Southwest Edition)). At September 8, 2000, the registrant had issued and outstanding an aggregate of 333,877,879 shares of its common stock.

DOCUMENTS INCORPORATED BY REFERENCE:

Portions of the proxy statement to be filed not later than 120 days after July 1, 2000 are incorporated by reference into Part III.

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2

EXPLANATORY NOTE

We are filing this amendment to Form 10-K to include in Items 1, 7 and 8 disclosure about operating segments pursuant to Statement of Financial Accounting Standards No. 131.

3

PART I

ITEM 1. BUSINESS

OVERVIEW

Sysco Corporation (together with its subsidiaries and divisions collectively referred to as "SYSCO" or the "company"), founded in 1969, is the largest North American distributor of food and food related products to the foodservice or "food-prepared-away-from-home" industry. SYSCO provides its products and services to approximately 356,000 customers, including restaurants, healthcare and educational facilities, lodging establishments and other foodservice customers.

SYSCO, which was formed when the stockholders of nine companies exchanged their stock for SYSCO common stock, commenced operations in March 1970. Since its formation, the company has grown from $115 million to over $19 billion in annual sales both through internal expansion of existing operations and acquisitions of formerly independent companies. Through the end of fiscal 2000, SYSCO had acquired sixty companies or divisions of companies.

In July 1999, SYSCO acquired Newport Meat Co. Inc., a southern California based distributor of fresh aged beef and other meats, seafood and poultry products. In August 1999, the company acquired Doughtie's Foods, Inc., a food distributor located in Virginia and bought substantially all of the assets of Buckhead Beef Company, Inc., a distributor, located in Georgia of custom-cut fresh steaks and other meats, seafood and poultry products. In November 1999, SYSCO acquired Malcolm Meats, an Ohio based distributor of custom-cut fresh steaks and other meat and poultry products. In January 2000, SYSCO acquired Watson Foodservice, Inc., a broadline foodservice distributor located in Lubbock, Texas. In March 2000, SYSCO acquired FreshPoint, Inc., a distributor of produce with locations in the U.S. and Canada.

SYSCO is organized under the laws of Delaware. The address and telephone number of the company's executive office are 1390 Enclave Parkway, Houston, Texas 77077-2099, (281) 584-1390.

OPERATING SEGMENTS

As of July 1, 2000, we serviced our customers through 101 operating companies, each of which generally represents a separate operating segment. We have aggregated these operating companies into four operating segments based upon the economic characteristics of each operating company. See Summary of Accounting Policies in Item 8 of this report for financial information about these segments.

- Broadline -- These companies distribute a full range of food products and a wide variety of non-food products to both traditional and chain restaurant customers.

- SYGMA -- These companies distribute a full range of food products and a wide variety of non-food products to some of our chain restaurant customer locations.

- Produce -- These companies distribute fresh produce and, on a limited basis, other foodservice products.

- Meat -- These companies distribute custom-cut fresh steaks, and other meat, seafood and poultry products.

CUSTOMERS AND PRODUCTS

The foodservice industry consists of two major customer types -- "traditional" and "chain restaurant." Traditional foodservice customers include restaurants, hospitals, schools, hotels and industrial caterers. SYSCO's chain restaurant customers include regional pizza and national hamburger, chicken and steak chain operations.

Services to the company's traditional foodservice and chain restaurant customers are supported by similar physical facilities, vehicles, materials handling equipment and techniques, and administrative and operating staffs.

The traditional foodservice industry includes businesses and organizations which prepare and serve food to be eaten away from home. Products distributed by the company include a full line of frozen foods, such as meats, fully prepared entrees, fruits, vegetables and desserts, and a full line of canned and dry goods, fresh meats, imported specialties and fresh produce. The company also supplies a wide variety of nonfood items, including paper products such as disposable napkins, plates and cups; tableware such as china and silverware; restaurant and kitchen equipment and supplies; medical and surgical supplies; and cleaning supplies. SYSCO distributes both nationally-branded merchandise and products packaged under its own private brands.

The company believes that prompt and accurate delivery of orders, close contact with customers and the ability to provide a full array of products and services to assist customers in their foodservice operations are of primary importance in the marketing and distribution of products to the traditional customer of the foodservice industry. SYSCO offers daily delivery to certain customer locations and has the capability of delivering special orders on short notice. Through its more than 11,450 sales, marketing and service representatives, the company keeps informed of the needs of its customers and acquaints them with new products. SYSCO also provides ancillary services relating to its foodservice distribution such as providing customers with product usage reports and other data, menu-planning advice, contract services for installing kitchen equipment, installation and service of beverage dispensing machines and assistance in inventory control.

No single traditional foodservice customer accounted for as much as 5% of SYSCO's sales for its fiscal year ended July 1, 2000. Approximately 5.6% of traditional foodservice sales during fiscal 2000 resulted from a process of competitive bidding. There are no material long-term contracts with any traditional foodservice customer that may not be cancelled by either party at its option.

SYSCO's sales to the chain restaurant industry consist of a variety of food products necessitated by the increasingly broad menus of chain restaurants. The company believes that consistent product quality and timely and accurate service are important factors in the selection of a chain restaurant supplier. One chain restaurant customer (Wendy's International, Inc.) accounted for 5.0% of SYSCO's sales for its fiscal year ended July 1, 2000. There are no material long-term contracts with any chain restaurant customer that may not be cancelled by either party at its option.

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

| TYPE OF CUSTOMER | FISCAL 2000 | FISCAL 1999 | FISCAL 1998 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Restaurants | 65% | 64% | 62% |
| Hospitals and nursing homes | 10 | 10 | 11 |
| Schools and colleges | 6 | 7 | 7 |
| Hotels and motels | 5 | 5 | 5 |
| Other | 14 | 14 | 15 |
| Totals | 100% | 100% | 100% |

SOURCES OF SUPPLY

SYSCO estimates that it purchases from thousands of independent sources, none of which individually account for more than 5% of the company's purchases. These sources of supply consist generally of large corporations selling brand name and private label merchandise and independent private label processors and packers. Generally, purchasing is carried out on a decentralized basis through centrally developed purchasing programs (see "Corporate Headquarters' Services and Controls" below) and direct purchasing programs





established by the company's various operating subsidiaries and divisions. The company continually develops relationships with suppliers but has no material long-term purchase commitments with any supplier.

CORPORATE HEADQUARTERS' SERVICES AND CONTROLS

SYSCO's corporate staff, consisting of approximately 800 persons, provides a number of services to the company's operating divisions and subsidiaries. These persons possess experience and expertise in, among other areas, accounting and finance, cash management, data processing, employee benefits, engineering and insurance. Corporate also provides legal, marketing and tax compliance services as well as warehousing and distribution services which provide assistance in space utilization, energy conservation, fleet management and work flow.

The corporate staff also administers a consolidated product procurement program engaged in the task of developing, obtaining and assuring consistent quality food and nonfood products. The program covers the purchasing and marketing of SYSCO brand merchandise, as well as private label and national brand merchandise, encompassing substantially all product lines. The company's operating subsidiaries and divisions may participate in the program at their option.

CAPITAL IMPROVEMENTS

To maximize productivity and customer service, the company continues to construct and modernize its distribution facilities. During fiscal 2000, 1999 and 1998, approximately $266,000,000, $287,000,000 and $259,000,000, respectively, were invested in facility expansions, fleet additions and other capital asset enhancements. The company estimates its capital expenditures in fiscal 2001 should be in the range of $325,000,000 to $375,000,000. During the three years ended July 1, 2000, capital expenditures have been financed primarily by internally generated funds, the company's commercial paper program and bank borrowings.

EMPLOYEES

As of July 1, 2000, SYSCO had approximately 40,400 full-time employees, 20%

of whom were represented by unions, primarily the International Brotherhood of Teamsters. Contract negotiations are handled locally with monitoring and assistance by the corporate staff. Collective bargaining agreements covering approximately 31% of the company's union employees expire during fiscal 2001. SYSCO considers its labor relations to be satisfactory.

COMPETITION

The business of SYSCO is competitive with numerous companies engaged in foodservice distribution. While competition is encountered primarily from local and regional distributors, a few companies compete with SYSCO on a national basis. The company believes that, although price and customer contact are important considerations, the principal competitive factor in the foodservice industry is the ability to deliver a wide range of quality products and related services on a timely and dependable basis. Although SYSCO's share of the foodservice industry market in the United States and Canada was approximately 11% as of July 1, 2000, SYSCO believes, based upon industry trade data, that its sales to the U.S. "food-prepared-away-from-home" industry were the largest of any foodservice distributor during fiscal 2000. While adequate industry statistics are not available, the company believes that in most instances its local operations are among the leading distributors of food and related nonfood products to foodservice customers in their respective trading areas.

GOVERNMENT REGULATION

As a marketer and distributor of food products, SYSCO is subject to the Federal Food, Drug and Cosmetic Act and regulations promulgated thereunder by the U.S. Food and Drug Administration ("FDA"). The FDA regulates manufacturing and holding requirements for foods through its current good manufacturing practice regulations, specifies the standards of identity for certain foods and prescribes the format and content

3

6

of certain information required to appear on food product labels. For certain product lines, SYSCO is also subject to the Federal Meat Inspection Act, the Poultry Products Inspection Act, the Perishable Agricultural Commodities Act and regulations promulgated thereunder by the U.S. Department of Agriculture ("USDA"). The USDA imposes standards for product quality and sanitation including the inspection and labeling of meat and poultry products and the grading and commercial acceptance of produce shipments from the company's suppliers. The company and its products are also subject to state and local regulation through such measures as the licensing of its facilities, enforcement by state and local health agencies of state and local standards for the company's products and regulation of the company's trade practices in connection with the sale of its products. SYSCO's facilities are generally inspected at least annually by state and/or federal authorities. These facilities are also subject to inspections and regulations issued pursuant to the Occupational Safety and Health Act by the Department of Labor, which require the company to comply with certain manufacturing, health and safety standards to protect its employees from accidents and to establish hazard communication programs to transmit information on the hazards of certain chemicals present in products distributed by the company.

The company is also subject to regulation by numerous federal, state, and local regulatory agencies, including but not limited to the U.S. Department of Labor, which sets employment practice standards for workers, and the U.S. Department of Transportation, which regulates transportation of perishable and hazardous materials and waste, and similar state and local agencies.

The company's distribution facilities have tanks for the storage of diesel fuel and other petroleum products which are subject to laws regulating such storage tanks. Other federal, state and local provisions relating to the protection of the environment or the discharge of materials do not materially impact the company's use or operation of its facilities.

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

GENERAL

SYSCO has numerous trademarks, some of which are of significant importance to the company. The loss of the SYSCO(R) trademark would have a material adverse effect on SYSCO's results of operations.

SYSCO is not engaged in material research activities relating to the development of new products or the improvement of existing products. In fiscal 1996, the company completed an internally developed project that involved the redesign and development of the computer operating systems through which SYSCO's operating companies will process, control and report the results of all transactions. Installation was substantially completed by December 1999 and such installation is expected to provide the basis for business expansion over the next several years without having a material adverse effect upon the business or operations of the company.

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

As of September 8, 2000 SYSCO operated 118 facilities within the United States, of which 76 are distribution facilities, and seven in Canada, of which four are distribution facilities.





PART II

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

LIQUIDITY AND CAPITAL RESOURCES

SYSCO provides marketing and distribution services to foodservice customers and suppliers throughout the contiguous United States, Alaska, the District of Columbia and western and central Canada. The company intends to continue to expand its market share through profitable sales growth and constant emphasis on the development of its consolidated buying programs. The company also strives to increase the effectiveness of its marketing associates and the productivity of its warehousing and distribution activities. These objectives require continuing investment. SYSCO's resources include cash provided by operations and access to capital from financial markets.

SYSCO's operations historically have produced significant cash flow. Cash generated from operations is first allocated to working capital requirements; investments in facilities, fleet and other equipment required to meet customers' needs; cash dividends; and acquisitions fitting within the company's overall growth strategy. Any remaining cash generated from operations is applied toward a portion of the cost of shares repurchased in the share repurchase program, while the remainder of the cost may be financed with additional long-term debt. SYSCO's initial share repurchase program was used primarily to offset shares issued under various employee benefit and compensation plans. The company significantly accelerated the repurchase program beginning in February 1996. The share repurchase program reduces outstanding shares and increases earnings per share. The long-term debt to total capitalization target ratio was increased from a range of 30% to 40% to a range of 35% to 40% due to prior and anticipated accelerated share repurchases, additional debt associated with those repurchases and acquisitions. This ratio was 36.8% and 41.1% at July 1, 2000 and July 3, 1999, respectively.

In November 1996, the Board authorized an additional 12,000,000 share buyback to be completed in calendar 1997 and in July 1997, authorized an additional 12,000,000 share buyback to be completed in fiscal 1998; and in September 1998 the Board authorized an additional 8,000,000 share buyback to be completed in calendar 1999; and in July 1999 the Board authorized a new 8,000,000 share buyback. The number of shares acquired and their cost for the past three years was 5,660,400 shares for $186,296,000 in fiscal 2000, 7,567,300 shares for $203,958,000 in fiscal 1999 and 12,129,700 shares for $263,416,000 in fiscal 1998.

In February 2000, the company filed with the Securities and Exchange Commission a shelf registration covering 2,850,000 shares of common stock to be offered from time to time in connection with acquisitions. As of July 1, 2000 all of these shares are available for issuance.

Net cash generated from operating activities was $708,726,000 in 2000, $585,303,000 in 1999 and $357,764,000 in 1998. Expenditures for facilities, fleet and other equipment were $266,413,000 in 2000, $286,687,000 in 1999 and $259,353,000 in 1998. Expenditures in fiscal 2001 should be in the range of $325,000,000 to $375,000,000.

On June 3, 1998 SYSCO filed with the Securities and Exchange Commission a $500,000,000 shelf registration of debt securities. On July 22, 1998 SYSCO issued 6.5% debentures totaling $225,000,000 under the shelf registration, due August 1, 2028. These debentures were priced at 99.685% of par, are unsecured, are not subject to any sinking fund requirement and include a redemption provision which allows SYSCO the right to retire the debentures at any time prior to maturity at the greater of par plus accrued interest or an amount designed to insure that the debenture holders are not penalized by the early redemption. Proceeds from the debentures were used to pay down outstanding commercial paper.

The net cash provided by operations less cash utilized for capital expenditures, the share repurchase program, cash dividends and other uses resulted in net long-term debt of $1,023,642,000 at July 1, 2000. About 75% of the long-term debt is at fixed rates averaging 6.73% and the remainder is at floating rates averaging 6.77%. Long-term debt to capitalization was 36.8% at July 1, 2000, down 4.3% from the 41.1% at July 3, 1999 and down 2.2% from the 39.0% at June 27, 1998. SYSCO continues to have borrowing capacity available and alternative financing arrangements are evaluated as appropriate.

5

8

SYSCO has uncommitted bank lines of credit, which provide for unsecured borrowings for working capital of up to $246,481,000 of which $31,109,000 and $13,377,000 were outstanding at July 1, 2000 and July 3, 1999, respectively.

SYSCO has a commercial paper program which is currently supported by a

$300,000,000 bank credit facility. During fiscal 2000, 1999 and 1998, commercial paper and short-term bank borrowings ranged from approximately $199,028,000 to $469,094,000, from approximately $67,769,000 to $358,637,000, and from approximately $29,581,000 to $417,924,000, respectively.

In summary, SYSCO believes that through continual monitoring and management of assets together with the availability of additional capital in the financial markets, it will meet its cash requirements while maintaining proper liquidity for normal operating purposes.

OPERATING RESULTS

SALES

| | 2000 | 1999 (53 WEEKS) | 1998 |
|---|---|---|---|
| | | (IN THOUSANDS) | |
| Broadline | $16,643,578 | $15,420,858 | $13,935,672 |
| SYGMA | 2,154,043 | 2,001,957 | 1,391,864 |
| Other | 534,750 | -- | -- |
| Intersegment sales | (29,103) | -- | -- |
| Total | $19,303,268 | $17,422,815 | $15,327,536 |

The annual increases in sales of 11% in 2000 and 14% in 1999 (53 weeks) resulted from several factors. Sales in fiscal 2000 and 1999 were affected by the strong growth in the U.S. economy, as well as in the foodservice industry. After adjusting for food price increases, acquisitions and adjusted for the extra week in fiscal 1999, real sales growth was about 9% in 2000 and 12% in 1999. Acquisitions represented 3.5% of total sales for fiscal 2000. Food costs, which experienced minimal inflation during the first two quarters of 2000 and a slight deflation during the third quarter, returned to about 2% inflation during the final quarter, resulting in approximately 0.4% inflation for fiscal 2000. This compares to an increase of approximately 1% in fiscal 1999. Industry sources estimate the total foodservice market experienced real growth of approximately 3.1% in calendar year 1999 and 2.8% in calendar year 1998.

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

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Medical supplies | 1% | 1% | 1% |
| Dairy products | 9 | 10 | 9 |
| Fresh and frozen meats | 17 | 15 | 15 |

| | | | |
|---|---|---|---|
| Seafoods | 6 | 6 | 6 |
| Poultry | 10 | 11 | 10 |
| Frozen fruits, vegetables, bakery and other | 14 | 14 | 15 |
| Canned and dry products | 21 | 22 | 23 |
| Paper and disposables | 8 | 7 | 7 |
| Janitorial products | 2 | 2 | 2 |
| Equipment and smallwares | 2 | 3 | 3 |
| Fresh produce | 7 | 6 | 6 |
| Beverage products | 3 | 3 | 3 |
| | 100% | 100% | 100% |





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

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Restaurants | 65% | 64% | 62% |
| Hospitals and nursing homes | 10 | 10 | 11 |
| Schools and colleges | 6 | 7 | 7 |
| Hotels and motels | 5 | 5 | 5 |
| All other | 14 | 14 | 15 |
| | 100% | 100% | 100% |

COST OF SALES

Cost of sales increased about 10% in 2000 and 14% in 1999. These increases were generally in line with the increases in sales. The rate of increase is influenced by SYSCO's overall customer and product mix as well as economies realized in product acquisition and higher sales of SYSCO Brand products.

OPERATING EXPENSES

Operating expenses include the costs of warehousing and delivering products as well as selling and administrative expenses. These expenses as a percent of sales were 14.7% for fiscal 2000 and 14.6% for fiscal 1999 and for fiscal 1998. Part of the increase over 1999 was due to expenses related to the closing of a facility and one-time non-recurring costs associated with the completion of the SYSCO Uniform Systems implementation. There was also a charge to non-operating expenses in connection with the facility closing. The costs described above were approximately $13,000,000. Otherwise, changes in the percentage relationship of operating expenses to sales result from an interplay of several economic influences, including customer mix. Inflationary increases in operating costs generally have been offset through improved productivity.

INTEREST EXPENSE

Interest expense decreased $2,007,000 or approximately 3% in fiscal 2000 as compared to an increase of $14,417,000 or approximately 25% in fiscal 1999. The decrease in fiscal 2000 was due primarily to interest income received in the amount of $3,000,000 related to a Federal income tax refund on an amended tax return. Without this income, interest expense would have been approximately 1% above last year due to increased borrowings. The increase in fiscal 1999 was due primarily to increased borrowings, principally to fund the share repurchase program, and the replacement of floating rate debt at higher fixed rates. Interest capitalized during the past three years was $964,000 in fiscal 2000, $1,812,000 in fiscal 1999 and $2,095,000 in fiscal 1998.

OTHER, NET

Other decreased $559,000 or about 58% in fiscal 2000 and decreased $910,000 or about 1,717% in fiscal 1999. Changes between the years result from fluctuations in miscellaneous activities, primarily gains and losses on the sale of surplus facilities as well as the expenses related to the facility closing discussed under "operating expenses" above.

EARNINGS BEFORE INCOME TAXES

Earnings before income taxes rose $143,721,000, or approximately 24%, above fiscal 1999 which had increased $61,394,000, or approximately 12%, over the prior year. Additional sales and realization of operating efficiencies contributed to the increases as well as the company's success in its continued efforts to increase sales to the company's higher margin marketing associate-served customers and increasingly higher sales of SYSCO Brand products.





PROVISION FOR INCOME TAXES

The effective tax rate for 2000 was 38.5% and for 1999 was approximately 39%.

EARNINGS BEFORE CUMULATIVE EFFECT OF ACCOUNTING CHANGE

Fiscal 2000 represents the twenty-fourth consecutive year of increased earnings before the cumulative effect of an accounting change. Earnings before cumulative effect of accounting change rose $91,358,000, or approximately 25%, above fiscal 1999 which had increased $37,450,000, or approximately 12%, over the prior year.

CUMULATIVE EFFECT OF ACCOUNTING CHANGE

In the first quarter of fiscal 2000, SYSCO recorded a one-time, after-tax, non-cash charge of $8,041,000 to comply with the required adoption of AICPA Statement of Position 98-5 (SOP 98-5), "Reporting on the Costs of Start-up Activities." SOP 98-5 requires the write-off of any unamortized costs of start-up activities and organization costs. Going forward such costs are being expensed as incurred.

NET EARNINGS

Net earnings for the year increased $83,317,000 or approximately 23% above fiscal 1999, which had increased $65,503,000 or approximately 22% over the prior year. The increase was caused by additional sales, operating efficiencies and other factors discussed above.

DIVIDENDS

SYSCO began paying the quarterly dividend rate of twelve cents per share in February 2000, an increase from the ten cents per share that became effective in February 1999.

RETURN ON SHAREHOLDERS' EQUITY

The return on average shareholders' equity before the cumulative effect of the accounting change for 2000 was approximately 29% compared to 26% in 1999 and 23% in 1998. Since inception SYSCO has averaged in excess of a 17% return on shareholders' equity before the cumulative effect of the accounting change.

BROADLINE SEGMENT

Broadline segment sales increased by 7.9% in fiscal 2000 as compared to fiscal 1999 and by 10.7% in fiscal 1999 as compared to fiscal 1998. The fiscal 2000 and 1999 sales growth was affected primarily by growth in existing operating company sales. Broadline segment sales as a percentage of total SYSCO sales decreased from 88.5% in fiscal 1999 to 86.2% in fiscal 2000, and from 90.9% in fiscal 1998 to 88.5% in fiscal 1999. The decrease in fiscal 2000 was due primarily to acquisitions of specialty meat and produce companies in the Other segments. The decrease in fiscal 1999 was due primarily to the addition of the Wendy's business in the SYGMA segment.

Pretax earnings for the Broadline segment increased by 20.2% in fiscal 2000 as compared to fiscal 1999 and by 13.7% in fiscal 1999 as compared to fiscal 1998. The increase in pretax earnings for fiscal 2000 was driven by increased sales to marketing associate-served customers as well as increases in sales of SYSCO brand products. Completion of the installation of SYSCO Uniform Systems in the second quarter of fiscal 2000 has also impacted pretax earnings with increased efficiencies and productivity.

SYGMA SEGMENT

SYGMA segment sales increased by 7.6% in fiscal 2000 as compared to fiscal 1999 and by 43.8% in fiscal 1999 as compared to fiscal 1998. The fiscal 2000 and 1999 sales growth was affected by the factors listed above as well as the addition of the Wendy's business in fiscal 1999. SYGMA segment sales as a

8

11

percentage of total SYSCO sales decreased from 11.5% in fiscal 1999 to 11.2% in fiscal 2000, and increased from 9.1% in fiscal 1998 to 11.5% in fiscal 1999. The decrease in fiscal 2000 was due primarily to acquisitions of specialty meat and produce companies in the Other segments. The increase in fiscal 1999 was due to the addition of the Wendy's business. Pretax earnings for the segment decreased by 58.8% in fiscal 2000 as compared to fiscal 1999, and 8.1% in fiscal 1999 as compared to fiscal 1998. The decrease in pretax earnings in fiscal 2000 was due primarily to an $8.3 million charge incurred in connection with the closing of a SYGMA facility. The decrease in pretax earnings in fiscal 1999 was due primarily to costs incurred in connection with the addition of the Wendy's business.

OTHER SEGMENTS

Increases in sales and pretax earnings for the Other segments were due primarily to the timing of acquisitions made during the periods presented.

NEW ACCOUNTING STANDARDS

In fiscal 1998, SYSCO adopted SFAS No. 130, "Reporting Comprehensive Income." The adoption of this standard did not have an effect on SYSCO's reported net earnings as SYSCO has no components of other comprehensive income under the statement.

In fiscal 1999, SYSCO adopted SFAS 131, "Disclosure About Segments of an Enterprise and Related Information." Adoption of this standard had no effect on SYSCO's consolidated results of operations or financial position, but revises the disclosure requirements for segment reporting.

In fiscal 1999, SYSCO adopted SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." This statement does not change the measurement or recognition of those plans, but revises the disclosure requirements for pensions and other postretirement plans.

In fiscal 2000, SYSCO adopted the AICPA issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The SOP provides guidance with respect to accounting for the various types of costs incurred for computer software developed or obtained for SYSCO's use. The adoption of this SOP did not have a significant effect on SYSCO's consolidated results of operations or financial position.

In June 1998, June 1999 and June 2000, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of SFAS No. 133," and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities -- an amendment of SFAS No. 133." These statements outline the accounting treatment for all derivative activity. SYSCO is required to and will adopt SFAS No. 133 in the first quarter of fiscal 2001 and does not expect adoption to have a significant effect on its consolidated results of operations or financial position.

In December 1999, the Securities and Exchange Commission staff released Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition." The SAB provides guidance on the recognition, presentation and disclosure of revenue in financial statements. SYSCO is required to and will adopt SAB 101 in the fourth quarter of fiscal 2001 and believes that adoption will not have a significant effect on its consolidated results of operations or financial position.

RISK FACTORS

Low Margin Business; Economic Sensitivity

The foodservice distribution industry is characterized by relatively high inventory turnover with relatively low profit margins. SYSCO makes a significant portion of its sales at prices that are based on the cost of products it sells plus a percentage markup. As a result, SYSCO's profit levels may be negatively impacted during periods of food price deflation, even though SYSCO's gross profit percentage may remain relatively constant. The foodservice industry is sensitive to national and economic conditions. SYSCO's operating





results also are sensitive to, and may be adversely affected by other factors, including difficulties with the collectability of accounts receivable, inventory control, competitive price pressures, severe weather conditions and unexpected increases in fuel or other transportation-related costs. Although such factors have not had a material adverse impact on SYSCO's past operations, there can be no assurance that one or more of these factors will not adversely affect future operating results.

Leverage and Debt Service

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

Product Liability Claims

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

Interruption of Supplies

SYSCO obtains all of its foodservice products from other suppliers. For the most part, SYSCO does not have long-term contracts with any supplier committing it to provide products to SYSCO. Although SYSCO's purchasing volume can provide leverage when dealing with suppliers, suppliers may not provide the foodservice products and supplies needed by SYSCO in the quantities requested. Because SYSCO does not control the actual production of its products, it is also subject to delays caused by interruption in production based on conditions outside its control. These conditions include job actions or strikes by employees of suppliers, weather, crop conditions, transportation interruptions, and natural disasters or other catastrophic events. SYSCO's inability to obtain adequate supplies of its foodservice products as a result of any of the foregoing factors or otherwise, could mean that SYSCO could not fulfill its obligations to customers, and customers may turn to other distributors.

Labor Relations

As of July 1, 2000, approximately 8,000 employees were members of 48 different local unions associated with the International Brotherhood of Teamsters and other labor organizations, at 34 operating companies. In fiscal 2001, 14 agreements covering approximately 2,500 employees will expire. Failure to effectively renegotiate these contracts could result in work stoppages. Although SYSCO has not experienced any significant labor disputes or work stoppages to date, and believes it has satisfactory relationships with its unions, a work stoppage due to failure to renegotiate a union contract, or otherwise, could have a material adverse effect on SYSCO.

Integration of Acquired Companies

If SYSCO is unable to integrate acquired businesses successfully and realize anticipated economic, operational and other benefits in a timely manner, its profitability may decrease. Integration of an acquired business may be more difficult when SYSCO acquires a business in a market in which it has limited or no





expertise, or with a corporate culture different from SYSCO's. If SYSCO is unable to integrate acquired businesses successfully, it may incur substantial costs and delays in increasing its customer base. In addition, the failure to integrate acquisitions successfully may divert management's attention from SYSCO's existing business and may damage SYSCO's relationships with its key customers and suppliers.

Charter and Stockholder Rights Plan

Under its Restated Certificate of Incorporation, SYSCO's Board of Directors is authorized to issue up to 1.5 million shares of preferred stock without stockholder approval. Issuance of these shares would make it more difficult for anyone to acquire SYSCO without approval of the Board of Directors because more shares would have to be acquired to gain control. If anyone attempts to acquire SYSCO without approval of the Board of Directors of SYSCO, the stockholders of SYSCO have the right to purchase preferred stock of SYSCO, which also means more shares would have to be acquired to gain control. Both of these devices may deter hostile takeover attempts that might result in an acquisition of SYSCO that would have been financially beneficial to SYSCO's stockholders.

FORWARD-LOOKING STATEMENTS

Certain statements made herein that look forward in time or express management's expectations or beliefs with respect to the occurrence of future events are forward-looking statements under the Private Securities Litigation Reform Act of 1995. They include statements about anticipated industry growth, SYSCO's long-term growth objectives, anticipated capital expenditures, and implementation and timing of "fold-outs" and acquisitions.

These statements are based on current expectations and management estimates; actual results may differ materially due in part to the risk factors discussed above. In addition, decisions to pursue "fold-outs" and acquisitions and expenditures for such could vary depending upon construction schedules and the timing of other purchases, such as fleet and equipment, while the timing and implementation of "fold-outs" and acquisitions could be impacted by competitive conditions, labor issues and other matters. The ability to pursue acquisitions also depends upon the availability and suitability of potential candidates and management's allocation of capital. Industry growth and SYSCO's long-term growth objectives could be affected by conditions in the economy, the industry and internal factors that may alter planned results.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

SYSCO does not utilize financial instruments for trading purposes and holds no derivative financial instruments which could expose the company to significant market risk. SYSCO's exposure to market risk for changes in interest rates relates primarily to its long-term obligations discussed above. At July 1, 2000 the company had outstanding commercial paper of $247,870,000 with maturities through September 22, 2000. The company's remaining long-term debt obligations of $775,772,000 were primarily at fixed rates of interest. SYSCO has no significant cash flow exposure due to interest rate changes for long-term debt obligations.





ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA

SYSCO CORPORATION AND SUBSIDIARIES

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS



All other schedules are omitted because they are not applicable or the information is set forth in the consolidated financial statements or notes thereto.





REPORT OF MANAGEMENT ON INTERNAL ACCOUNTING CONTROLS

The management of SYSCO is responsible for the preparation and integrity of the consolidated financial statements of the company. The accompanying consolidated financial statements have been prepared by the management of the company, in accordance with generally accepted accounting principles, using management's best estimates and judgment where necessary. Financial information appearing throughout this Annual Report is consistent with that in the consolidated financial statements.

To help fulfill its responsibility, management maintains a system of internal controls designed to provide reasonable assurance that assets are safeguarded against loss or unauthorized use and that transactions are executed in accordance with management's authorizations and are reflected accurately in the company's records. The concept of reasonable assurance is based on the recognition that the cost of maintaining a system of internal accounting controls should not exceed benefits expected to be derived from the system. SYSCO believes that its long-standing emphasis on the highest standards of conduct and ethics, embodied in comprehensive written policies, serves to reinforce its system of internal controls.

The company's operations review function monitors the operation of the internal control system and reports findings and recommendations to management and the Board of Directors. It also oversees actions taken to address control deficiencies and seeks opportunities for improving the effectiveness of the system.

Arthur Andersen LLP, independent public accountants, has been engaged to express an opinion regarding the fair presentation of the company's financial condition and operating results. As part of their audit of the company's financial statements, Arthur Andersen LLP considered the company's system of internal controls to the extent they deemed necessary to determine the nature, timing and extent of their audit tests.

The Board of Directors oversees the company's financial reporting through its Audit Committee which consists entirely of outside directors. The Board, after a recommendation from the Audit Committee, selects and engages the independent public accountants annually. The Audit Committee reviews both the scope of the accountants' audit and recommendations from both the independent public accountants and the internal operations review function for improvements in internal controls. The independent public accountants have free access to the Audit Committee and from time to time confer with them without management representation.

SYSCO recognizes its responsibility to conduct business in accordance with high ethical standards. This responsibility is reflected in a comprehensive code of business conduct that, among other things, addresses potentially conflicting outside business interests of company employees and provides guidance as to the proper conduct of business activities. Ongoing communications and review programs are designed to help ensure compliance with this code.

The company believes that its system of internal controls is effective and adequate to accomplish the objectives discussed above.

| | |
|---|---|
| /s/ CHARLES H. COTROS | /s/ JOHN K. STUBBLEFIELD, JR. |
| Charles H. Cotros<br>Chairman and Chief Executive Officer | John K. Stubblefield, Jr.<br>Executive Vice President,<br>Finance and Administration |

# REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

Board of Directors and Shareholders
Sysco Corporation

We have audited the accompanying consolidated balance sheets of Sysco Corporation (a Delaware corporation) and subsidiaries as of July 1, 2000 and July 3, 1999, and the related statements of consolidated results of operations, shareholders' equity and cash flows for each of the three years in the period ended July 1, 2000. These financial statements and the schedule referred to below are the responsibility of the company's management. Our responsibility is to express an opinion on these financial statements and the schedule based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sysco Corporation and subsidiaries as of July 1, 2000 and July 3, 1999, and the results of their operations and their cash flows for each of the three years in the period ended July 1, 2000, in conformity with accounting principles generally accepted in the United States.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule listed in Item 14(a) is presented for purposes of complying with the Securities and Exchange Commission's rules and is not a required part of the basic financial statements. This schedule has been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, fairly states in all material respects the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

/s/ ARTHUR ANDERSEN LLP
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Arthur Andersen LLP

Houston, Texas
August 2, 2000





SYSCO

# CONSOLIDATED BALANCE SHEETS

| | JULY 1, 2000 | JULY 3, 1999 |
|---|---|---|
| | (IN THOUSANDS EXCEPT FOR SHARE DATA) | |

ASSETS

| | | |
|---|---|---|
| Current Assets | | |
| Cash | $ 159,128 | $ 149,303 |
| Accounts and notes receivable, less allowances of $27,628 and $21,095 | 1,519,038 | 1,334,371 |
| Inventories | 937,899 | 851,965 |
| Deferred taxes | 72,041 | 43,353 |
| Prepaid expenses | 45,109 | 29,775 |
| Total current assets | 2,733,215 | 2,408,767 |
| Plant and equipment at cost, less depreciation | 1,344,693 | 1,227,669 |
| Other assets | | |
| Goodwill and intangibles, less amortization | 503,039 | 302,100 |
| Other | 233,008 | 158,046 |
| Total other assets | 736,047 | 460,146 |
| Total assets | $4,813,955 | $4,096,582 |

LIABILITIES AND SHAREHOLDERS' EQUITY

| | | |
|---|---|---|
| Current liabilities | | |
| Notes payable | $ 31,109 | $ 13,377 |
| Accounts payable | 1,186,721 | 1,013,302 |
| Accrued expenses | 527,233 | 374,271 |
| Income taxes | 17,914 | 6,103 |
| Current maturities of long-term debt | 19,958 | 20,487 |
| Total current liabilities | 1,782,935 | 1,427,540 |
| Long-term debt | 1,023,642 | 997,717 |
| Deferred taxes | 245,810 | 244,129 |
| 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 1,000,000,000 shares, issued 382,587,450 shares | 382,587 | 382,587 |
| Paid-in capital | 76,967 | 872 |
| Retained earnings | 2,332,238 | 2,032,068 |
| | 2,791,792 | 2,415,527 |
| Less cost of treasury stock, 51,102,663 and 52,915,065 shares | 1,030,224 | 988,331 |
| Total shareholders' equity | 1,761,568 | 1,427,196 |
| Total liabilities and shareholders' equity | $4,813,955 | $4,096,582 |

See Summary of Accounting Policies and Additional Financial Information.

15

18

SYSCO

CONSOLIDATED RESULTS OF OPERATIONS

| | YEAR ENDED | | |
|---|---|---|---|
| | JULY 1, 2000 | JULY 3, 1999 (53 WEEKS) | JUNE 27, 19 |
| | (IN THOUSANDS EXCEPT FOR SHARE DATA) | | |
| Sales | $19,303,268 | $17,422,815 | $15,327,53 |
| Costs and expenses | | | |
| Cost of sales | 15,649,551 | 14,207,860 | 12,499,63 |
| Operating expenses | 2,843,755 | 2,547,266 | 2,236,93 |
| Interest expense | 70,832 | 72,839 | 58,42 |
| Other, net | 1,522 | 963 | 5 |
| Total costs and expenses | 18,565,660 | 16,828,928 | 14,795,04 |
| Earnings before income taxes | 737,608 | 593,887 | 532,49 |
| Income taxes | 283,979 | 231,616 | 207,67 |
| Earnings before cumulative effect of accounting change | 453,629 | 362,271 | 324,82 |
| Cumulative effect of accounting change | (8,041) | -- | (28,05 |
| Net earnings | $ 445,588 | $ 362,271 | $ 296,76 |
| Earnings before accounting change: | | | |
| Basic earnings per share | $ 1.38 | $ 1.09 | $ 0.9 |
| Diluted earnings per share | 1.36 | 1.08 | 0.9 |
| Cumulative effect of accounting change: | | | |
| Basic earnings per share | (0.02) | -- | (0.0 |
| Diluted earnings per share | (0.02) | -- | (0.0 |
| Net earnings: | | | |
| Basic earnings per share | 1.35 | 1.09 | 0.8 |
| Diluted earnings per share | 1.33 | 1.08 | 0.8 |

See Summary of Accounting Policies and Additional Financial Information.

16

19

SYSCO

CONSOLIDATED SHAREHOLDERS' EQUITY

| | COMMON STOCK | | | | TREASURY STO | |
|---|---|---|---|---|---|---|
| | SHARES | AMOUNT | PAID-IN CAPITAL | RETAINED EARNINGS | SHARES | A |
| | (IN THOUSANDS EXCEPT FOR SHARE DATA) | | | | | |
| Balance at June 28, 1997 | 191,293,725 | $191,294 | $ 32,258 | $1,771,548 | 18,855,458 | $ |
| Net earnings for year ended June 27, 1998 | | | | 296,768 | | |
| Cash dividends paid, $0.33 per share | | | | (110,928) | | |
| Treasury stock purchases | | | | | 6,064,850 | |

| | | | | | | |
|---|---|---|---|---|---|---|
| Stock options exercised....... | | | (4,308) | | (491,795) | |
| Employees' Stock Purchase Plan....................... | | | 1,359 | | (433,419) | |
| Management Incentive Plan..... | | | 1,084 | | (205,950) | |
| 2-for-1 stock split........... | 191,293,725 | 191,293 | (30,393) | (160,900) | 23,789,144 | |
| Balance at June 27, 1998...... | 382,587,450 | $382,587 | $ -- | $1,796,488 | 47,578,288 | $ |
| Net earnings for year ended July 3, 1999................ | | | | 362,271 | | |
| Cash dividends paid, $0.38 per share...................... | | | | (126,691) | | |
| Treasury stock purchases...... | | | | | 7,567,300 | |
| Stock options exercised....... | | | (5,621) | | (988,679) | |
| Employees' Stock Purchase Plan....................... | | | 3,679 | | (894,094) | |
| Management Incentive Plan..... | | | 2,814 | | (347,750) | |
| Balance at July 3, 1999....... | 382,587,450 | $382,587 | $ 872 | $2,032,068 | 52,915,065 | $ |
| Net earnings for year ended July 1, 2000................ | | | | 445,588 | | |
| Cash dividends paid, $0.44 per share...................... | | | | (145,418) | | |
| Treasury stock purchases...... | | | | | 5,660,400 | |
| Treasury stock issued for acquisitions................ | | | 69,794 | | (4,984,497) | |
| Stock options exercised....... | | | (7,526) | | (1,163,222) | |
| Employees' Stock Purchase Plan....................... | | | 9,446 | | (943,530) | |
| Management Incentive Plan..... | | | 4,381 | | (381,553) | |
| Balance at July 1, 2000....... | 382,587,450 | $382,587 | $ 76,967 | $2,332,238 | 51,102,663 | $1, |

See Summary of Accounting Policies and Additional Financial Information.





SYSCO

CONSOLIDATED CASH FLOWS

| | YEAR ENDED | | |
|---|---|---|---|
| | JULY 1, 2000 | JULY 3, 1999 (53 WEEKS) | JUNE 27, |
| | | (IN THOUSANDS) | |
| Cash flows from operating activities: | | | |
| Net earnings........................................ | $ 445,588 | $ 362,271 | $ 296, |
| Add non-cash items: | | | |
| Cumulative effect of accounting change............. | 8,041 | -- | 28, |
| Depreciation and amortization...................... | 220,661 | 205,005 | 181, |
| Deferred tax (benefit) provision................... | (25,528) | 5,656 | (15, |
| Provision for losses on receivables................ | 27,082 | 26,208 | 22, |
| Additional investment in certain assets and liabilities, net of effect of businesses acquired: | | | |
| (Increase) in receivables.......................... | (118,578) | (144,969) | (162, |

| | | | |
|---|---|---|---|
| (Increase) in inventories | (56,943) | (61,464) | (48, |
| Decrease (increase) in prepaid expenses | 3,378 | (3,180) | (4, |
| Increase in accounts payable | 105,790 | 164,143 | 14, |
| Increase in accrued expenses | 128,174 | 82,016 | 50, |
| Increase (decrease) in income taxes | 16,254 | (19,420) | 7, |
| (Increase) in other assets | (45,193) | (30,963) | (13, |
| Net cash provided by operating activities | 708,726 | 585,303 | 357, |
| Cash flows from investing activities: | | | |
| Additions to plant and equipment | (266,413) | (286,687) | (259, |
| Proceeds from sales of plant and equipment | 18,922 | 24,952 | 8, |
| Acquisition of businesses, net of cash acquired | (211,901) | -- | (84, |
| Net cash used for investing activities | (459,392) | (261,735) | (335, |
| Cash flows from financing activities: | | | |
| Bank and commercial paper borrowings (repayments) | 51,810 | (109,962) | 303, |
| Other debt (repayments) borrowings | (11,947) | 117,273 | 6, |
| Common stock reissued from treasury | 52,342 | 38,785 | 33, |
| Treasury stock purchases | (186,296) | (203,958) | (263, |
| Dividends paid | (145,418) | (126,691) | (110, |
| Net cash used for financing activities | (239,509) | (284,553) | (29, |
| Net increase (decrease) in cash | 9,825 | 39,015 | (7, |
| Cash at beginning of year | 149,303 | 110,288 | 117, |
| Cash at end of year | $ 159,128 | $ 149,303 | $ 110, |
| Supplemental disclosures of cash flow information: | | | |
| Cash paid during the year for: | | | |
| Interest | $ 70,977 | $ 66,706 | $ 58, |
| Income taxes | 272,022 | 237,990 | 195, |

See Summary of Accounting Policies and Additional Financial Information.





## SUMMARY OF ACCOUNTING POLICIES

### BUSINESS AND CONSOLIDATION

SYSCO Corporation (SYSCO or the company) is engaged in the marketing and distribution of a wide range of food and related products to the foodservice or "food-prepared-away-from-home" industry. These services are performed from 95 distribution facilities for approximately 356,000 customers located in the 39 states where facilities are situated, in nine adjacent states, Alaska and the District of Columbia. The company also has four facilities in Vancouver, British Columbia, one in Peterborough, Ontario and one in Edmonton, Alberta which service customers in those surrounding areas.

The accompanying financial statements include the accounts of SYSCO and its subsidiaries. All significant intercompany transactions and account balances have been eliminated. Certain amounts in the prior years have been reclassified to conform to the 2000 presentation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates that affect the reported amounts of assets, liabilities, sales and expenses. Actual results could differ from the estimates used.

Earnings of acquisitions recorded as purchases are included in SYSCO's results of operations from the date of acquisition.

INVENTORIES

Inventories consist of food and related products held for resale and are valued at the lower of cost (first-in, first-out method) or market.

PLANT AND EQUIPMENT

Capital additions, improvements and major renewals are classified as plant and equipment and are carried at cost. Depreciation is recorded using the straight-line method which reduces the book value of each asset in equal amounts over its estimated useful life. Maintenance, repairs and minor renewals are charged to earnings when they are incurred. Upon the disposition of an asset, its accumulated depreciation is deducted from the original cost, and any gain or loss is reflected in current earnings.

Applicable interest charges incurred during the construction of new facilities are capitalized as one of the elements of cost and are amortized over the assets' estimated useful lives. Interest capitalized during the past three years was $964,000 in 2000, $1,812,000 in 1999 and $2,095,000 in 1998.

GOODWILL AND INTANGIBLES

Goodwill and intangibles represent the excess of cost over the fair value of tangible net assets acquired and are amortized over 40 years using the straight-line method. Accumulated amortization at July 1, 2000, July 3, 1999 and June 27, 1998 was $96,862,000, $84,160,000 and $74,554,000, respectively.

COMPUTER SYSTEMS DEVELOPMENT PROJECT

In the second quarter of fiscal 1998, SYSCO recorded a one-time, after-tax, non-cash charge of $28,053,000 to comply with a new consensus ruling by the Emerging Issues Task Force of the Financial Accounting Standards Board (EITF Issue No. 97-13), requiring reengineering costs associated with computer systems development to be expensed as they are incurred. Prior to this ruling, SYSCO had capitalized business process reengineering costs incurred in connection with its SYSCO Uniform Systems information systems redevelopment project in accordance with generally accepted accounting principles.

No costs were capitalized in fiscal 2000, fiscal 1999 and fiscal 1998. Amounts capitalized are being amortized as completed portions are put into use. Accumulated amortization, including the one-time charge, at July 1, 2000, July 3, 1999 and June 27, 1998 was $42,001,000, $38,929,000 and $36,532,000, respectively.

19

22

COSTS OF START-UP ACTIVITIES

In the first quarter of fiscal 2000, SYSCO recorded a one-time, after-tax, non-cash charge of $8,041,000 to comply with the required adoption of AICPA Statement of Position 98-5 (SOP 98-5), "Reporting on the Costs of Start-up Activities." SOP 98-5 requires the write-off of any unamortized costs of start-up activities and organization costs. Going forward such costs are being expensed as incurred.

INSURANCE PROGRAM

SYSCO maintains a self-insurance program covering portions of workers' compensation and general and automobile liability costs. The amounts in excess of the self-insured levels are fully insured. Self-insurance accruals are based on claims filed and an estimate for significant claims incurred but not reported.

INCOME TAXES

SYSCO follows the liability method of accounting for income taxes as required by the provisions of Statement of Financial Accounting Standards (SFAS) No. 109, "Accounting for Income Taxes."

CASH FLOW INFORMATION

For cash flow purposes, cash includes cash equivalents such as time deposits, certificates of deposit and all highly liquid instruments with original maturities of three months or less.

ACQUISITIONS

During fiscal 2000, SYSCO acquired for cash and stock, three custom-meat operations, two broadline foodservice companies and one specialty produce company. In the aggregate, SYSCO paid cash of $211,901,000 and issued 4,984,497 unregistered, restricted shares to the former owners of the acquired companies. The transactions were accounted for using the purchase method of accounting and the financial statements for fiscal 2000 include the results of the acquired companies from the respective dates they joined SYSCO. There was no material effect, individually or in the aggregate on SYSCO's operating results or financial position from these transactions.

The purchase price was allocated to the net assets acquired based on the estimated fair value at the date of acquisition. The balances included in the Consolidated Financial Position related to the current year acquisitions are based upon preliminary information and are subject to change when final asset and liability valuations are obtained. Material changes to the preliminary allocations are not anticipated by management.

NEW ACCOUNTING STANDARDS

In fiscal 1998, SYSCO adopted SFAS No. 130, "Reporting Comprehensive Income." The adoption of this standard did not have an effect on SYSCO's reported net earnings as SYSCO has no components of other comprehensive income under the statement.

In fiscal 1999, SYSCO adopted SFAS 131, "Disclosures About Segments of an Enterprise and Related Information." Adoption of this standard had no effect on SYSCO's consolidated results of operations or financial position, but revises the disclosure requirements for segment reporting.

In fiscal 1999, SYSCO adopted SFAS No. 132, "Employers' Disclosures about Pensions and Other Postretirement Benefits." This statement does not change the measurement or recognition of those plans, but revises the disclosure requirements for pensions and other postretirement plans.

In fiscal 2000, SYSCO adopted the AICPA issued Statement of Position (SOP) 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use." The SOP provides guidance with respect to accounting for the various types of costs incurred for computer software developed or obtained for SYSCO's use. The adoption of this SOP did not have a significant effect on

SYSCO's consolidated results of operations or financial position.





In June 1998, June 1999 and June 2000, the Financial Accounting Standards Board issued SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities," SFAS No. 137, "Accounting for Derivative Instruments and Hedging Activities -- Deferral of the Effective Date of SFAS No. 133," and SFAS No. 138, "Accounting for Certain Derivative Instruments and Certain Hedging Activities -- an amendment of SFAS No. 133." These statements outline the accounting treatment for all derivative activity. SYSCO is required to and will adopt SFAS No. 133 in the first quarter of fiscal 2001 and does not expect adoption to have a significant effect on its consolidated results of operations or financial position.

In December 1999, the Securities and Exchange Commission staff released Staff Accounting Bulletin (SAB) No. 101, "Revenue Recognition." The SAB provides guidance on the recognition, presentation and disclosure of revenue in financial statements. SYSCO is required to and will adopt SAB 101 in the fourth quarter of fiscal 2001 and believes that adoption will not have a significant effect on its consolidated results of operations or financial position.

ADDITIONAL FINANCIAL INFORMATION

INCOME TAXES

The income tax provisions consist of the following:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Federal income taxes...................... | $250,309,000 | $200,537,000 | $178,226,000 |
| State, local and other income taxes........ | 33,670,000 | 31,079,000 | 29,446,000 |
| Total.......................... | $283,979,000 | $231,616,000 | $207,672,000 |

Included in the income taxes charged to earnings are net deferred tax benefits of $25,528,000 in 2000, and deferred tax provisions of $5,656,000 in 1999 and deferred tax benefits of $15,077,000 in 1998. The deferred tax benefit or deferred tax provision results from the effects of net changes during the year in deferred tax assets and liabilities arising from temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

Significant components of SYSCO's deferred tax assets and liabilities are as follows:

| | JULY 1, 2000 | JULY 3, 1999 |
|---|---|---|
| Deferred tax liabilities: | | |
| Excess tax depreciation and basis differences of assets.......................................... | $219,786,000 | $203,524,000 |
| Computer systems development project.................. | 9,838,000 | 10,991,000 |
| Inventory............................................ | 7,961,000 | 12,858,000 |

| | | |
|---|---|---|
| Other | 8,225,000 | 16,756,000 |
| Total deferred tax liabilities | 245,810,000 | 244,129,000 |
| Deferred tax assets: | | |
| Accrued pension expenses | 20,008,000 | 24,179,000 |
| Accrued medical and casualty insurance expenses | 16,387,000 | 6,647,000 |
| Other | 35,646,000 | 12,527,000 |
| Total deferred tax assets | 72,041,000 | 43,353,000 |
| Net deferred tax liabilities | $173,769,000 | $200,776,000 |

The company has enjoyed taxable earnings during each year of its thirty-one year existence and knows of no reason such profitability should not continue. Consequently, SYSCO believes that it is more likely than not that the entire benefit of existing temporary differences will be realized and therefore no valuation allowance has been established for deferred tax assets.





Reconciliations of the statutory Federal income tax rate to the effective income tax rates are as follows:

| | 2000 | 1999 | 1998 |
|---|---|---|---|
| Statutory Federal income tax rate | 35.0% | 35.0% | 35.0% |
| State and local income taxes, net of Federal income tax benefit | 3.0 | 3.8 | 3.8 |
| Other | 0.5 | 0.2 | 0.2 |
| | 38.5% | 39.0% | 39.0% |

ALLOWANCE FOR DOUBTFUL ACCOUNTS RECEIVABLE

The allowance for doubtful accounts receivable was $27,628,000 as of July 1, 2000, $21,095,000 as of July 3, 1999 and $20,081,000 as of June 27, 1998. Customer accounts written off, net of recoveries, were $24,881,000 or 0.13% of sales, $25,914,000 or 0.15% of sales and $21,218,000 or 0.14% of sales for fiscal years 2000, 1999 and 1998, respectively.

SHAREHOLDERS' EQUITY

On February 11, 1998, the Board of Directors declared a 2-for-1 stock split effected by a 100% stock dividend paid on March 20, 1998 to shareholders of record on February 27, 1998. All share and per share data in these financial statements have been restated to reflect the stock split.

In fiscal 1998, SYSCO adopted the provisions of SFAS No. 128, "Earnings Per Share," which replaced primary and fully-diluted earnings per share with a presentation of basic and diluted earnings per share. Basic earnings per share have been computed by dividing net earnings by 329,582,474 in 2000, 332,913,546 in 1999 and 340,380,477 in 1998, which represents the weighted average number of shares of common stock outstanding during those respective years. Diluted earnings per share have been computed by dividing net earnings by 334,777,928 in 2000, 336,796,669 in 1999 and 343,440,181 in 1998, which represents the weighted average number of shares of common stock outstanding during those respective years adjusted for the diluted effect of stock options outstanding under the treasury stock method.

In May 1986, the Board of Directors adopted a Warrant Dividend Plan designed to protect against those unsolicited attempts to acquire control of SYSCO that the Board believes are not in the best interest of the shareholders. In May 1996, the Board of Directors adopted an amended and restated plan which, among other things, extends the expiration of the plan through May 2006, and amended it again in May 1999. As amended, the plan provides for a dividend distribution of one-half of one Preferred Stock Purchase Right (Right) for each outstanding share of SYSCO common stock. Each Right may be exercised to purchase one two-thousandth of a share of Series A Junior Participating Preferred Stock at an exercise price of $175, subject to adjustment. The Rights will not be exercisable until a party either acquires 10% of the company's common stock or makes a tender offer for 10% or more of its common stock. In the event of a merger or other business combination transaction, each Right effectively entitles the holder to purchase $350 worth of stock of the surviving company for a purchase price of $175.

The Rights expire on May 21, 2006, and may be redeemed before expiration by the company at a price of $0.01 per Right until a party acquires 10% of the company's common stock or thereafter under certain circumstances. As a result of the Rights distribution, 450,000 of the 1,500,000 authorized preferred shares have been reserved for issuance as Series A Junior Participating Preferred Stock.





PLANT AND EQUIPMENT

A summary of plant and equipment, including the related accumulated depreciation, appears below:

| | JULY 1, 2000 | JULY 3, 1999 | ESTIMATED USEFUL LIVES |
|---|---|---|---|
| Plant and equipment, at cost | | | |
| Land | $ 110,546,000 | $ 93,107,000 | |
| Buildings and improvements | 1,050,417,000 | 957,389,000 | 10-40 years |
| Equipment | 1,398,555,000 | 1,266,548,000 | 3-20 years |
| | 2,559,518,000 | 2,317,044,000 | |
| Accumulated depreciation | (1,214,825,000) | (1,089,375,000) | |
| Net plant and equipment | $ 1,344,693,000 | $ 1,227,669,000 | |

DEBT

SYSCO has uncommitted bank lines of credit, which provide for unsecured borrowings for working capital of up to $246,481,000 of which $31,109,000 and $13,377,000 were outstanding at July 1, 2000 and July 3, 1999, respectively.

SYSCO's long-term debt consists of the following:

| | JULY 1, 2000 | JULY 3, 1999 |
|---|---|---|
| Commercial paper, interest averaging 6.9% in 2000 and 5.2% in 1999 | $ 247,870,000 | $ 213,792,000 |
| Senior notes, interest at 6.5%, maturing in 2005 | 149,553,000 | 149,463,000 |
| Senior notes, interest at 7.0%, maturing in 2006 | 200,000,000 | 200,000,000 |
| Senior notes, interest at 7.25%, maturing in 2007 | 99,735,000 | 99,696,000 |
| Debentures, interest at 7.16%, maturing in 2027 | 50,000,000 | 50,000,000 |
| Debentures, interest at 6.50%, maturing in 2029 | 224,336,000 | 224,313,000 |
| Industrial Revenue Bonds, mortgages and other debt, interest averaging 5.8% in 2000 and 5.9% in 1999, maturing at various dates to 2026 | 72,106,000 | 80,940,000 |
| Total long-term debt | 1,043,600,000 | 1,018,204,000 |
| Less current maturities | (19,958,000) | (20,487,000) |
| Net long-term debt | $1,023,642,000 | $ 997,717,000 |

The principal payments required to be made on long-term debt during the next five years are shown below:

| FISCAL YEAR | AMOUNT |
|---|---|
| 2001 | $ 19,958,000 |
| 2002 | 17,861,000 |
| 2003 | 7,306,000 |
| 2004 | 257,525,000 |
| 2005 | 149,809,000 |

SYSCO has a $300,000,000 revolving loan agreement maturing in fiscal 2004 which currently supports the company's commercial paper program. The commercial paper borrowings at July 1, 2000 were $247,870,000.

In June 1995, SYSCO issued 6.5% senior notes totaling $150,000,000 due June 12, 2005, under a $500,000,000 shelf registration filed with the Securities and Exchange Commission. These notes, which were priced at 99.4% of par, are unsecured, not redeemable prior to maturity and are not subject to any sinking fund





requirement. In May 1996, SYSCO issued 7.0% senior notes totaling $200,000,000 due May 1, 2006, under this shelf registration. These notes, which were priced at par, are unsecured, not redeemable prior to maturity and are not subject to any sinking fund requirement. On April 22, 1997, in two separate offerings, SYSCO drew down the remaining $150,000,000 of the $500,000,000 shelf registration. SYSCO issued 7.16% debentures totaling $50,000,000 due April 15, 2027. These debentures were priced at par, are unsecured, are not subject to any sinking fund requirement and are redeemable at the option of the holder on April

15, 2007, but otherwise are not redeemable prior to maturity. At that time SYSCO also issued 7.25% senior notes totaling $100,000,000 due April 15, 2007. These notes were priced at 99.611% of par and are unsecured, not redeemable prior to maturity and not subject to any sinking fund requirement.

On June 3, 1998 SYSCO filed with the Securities and Exchange Commission a $500,000,000 shelf registration of debt securities. On July 22, 1998 SYSCO issued 6.5% debentures totaling $225,000,000 under the shelf registration, due on August 1, 2028. These debentures were priced at 99.685% of par, are unsecured, are not subject to any sinking fund requirement and include a redemption provision which allows SYSCO the right to retire the debentures at any time prior to maturity at the greater of par plus accrued interest or an amount designed to ensure that the debenture holders are not penalized by the early redemption. Proceeds from the debentures were used to pay down outstanding commercial paper.

The Industrial Revenue Bonds have varying structures. Final maturities range from one to twenty-six years and certain of the bonds provide SYSCO the right to redeem (call) at various dates. These call provisions generally provide the bondholder a premium in the early call years, declining to par value as the bonds approach maturity.

Net long-term debt at July 1, 2000 was $1,023,642,000, of which 75% is at fixed rates averaging 6.73% with an average life of fourteen years, while the remainder is financed at floating rates averaging 6.77%. Certain loan agreements contain typical debt covenants to protect noteholders including provisions to maintain tangible net worth in excess of a specified level. SYSCO is in compliance with all debt covenants at July 1, 2000.

The fair value of SYSCO's total long-term debt is estimated based on the quoted market prices for the same or similar issues or on the current rates offered to the company for debt of the same remaining maturities. The fair value of total long-term debt approximated $986,966,000 at July 1, 2000 and $994,275,000 at July 3, 1999.

As part of normal business activities, SYSCO issues letters of credit through major banking institutions as required by certain vendor and insurance agreements. As of July 1, 2000 and July 3, 1999, letters of credit outstanding were $37,319,000 and $21,460,000, respectively. As of July 1, 2000 SYSCO has not entered into any significant derivative or other off-balance-sheet financing arrangements.

LEASES

Although SYSCO normally purchases assets, it has obligations under capital and operating leases for certain distribution facilities, vehicles and computers. Total rental expense under operating leases was $44,015,000, $36,904,000 and $31,324,000 in fiscal 2000, 1999 and 1998, respectively. Contingent rentals, subleases and assets and obligations under capital leases are not significant.

Aggregate minimum lease payments under existing non-capitalized long-term leases are as follows:

| FISCAL YEAR | AMOUNT |
|---|---|
| 2001 | $29,934,000 |
| 2002 | 24,123,000 |
| 2003 | 18,750,000 |

| | |
|---|---|
| 2004 | 15,056,000 |
| 2005 | 12,000,000 |
| Later years | 19,997,000 |





STOCK COMPENSATION PLANS

Employee Incentive Stock Option Plan

The Employee Incentive Stock Option Plan adopted in fiscal 1982 provided for the issuance of options to purchase SYSCO common stock to officers and key personnel of the company and its subsidiaries at the market price at date of grant, as adjusted for stock splits. No further grants will be made under this plan which expired in November 1991 and was replaced by the 1991 Stock Option Plan.

The following summary presents information with regard to incentive options under this plan:

| | OPTIONS EXERCISABLE | | OPTIONS OUTSTAND | |
|---|---|---|---|---|
| | MAXIMUM SHARES EXERCISABLE | WEIGHTED AVERAGE PRICE PER SHARE | SHARES UNDER OPTION | WEIGH AVERAGE PER S |
| Balance at June 28, 1997 | 822,518 | $ 9.70 | 822,518 | $ 9. |
| Exercised | | | (303,251) | 9. |
| Balance at June 27, 1998 | 519,267 | 9.72 | 519,267 | 9. |
| Exercised | | | (161,739) | 9. |
| Balance at July 3, 1999 | 357,528 | 9.94 | 357,528 | 9. |
| Exercised | | | (160,739) | 9. |
| Balance at July 1, 2000 | 196,789 | $10.08 | 196,789 | $10. |

The options outstanding at July 1, 2000 under this plan have exercise prices ranging from $7.66 to $11.13 and have a weighted average remaining contractual life of less than one year.

1991 Stock Option Plan

The 1991 Stock Option Plan was adopted in fiscal 1992 and originally reserved 6,000,000 shares of SYSCO common stock for options to directors, officers and key personnel of the company and its subsidiaries at the market price at date of grant. This plan provides for the issuance of options which are qualified as incentive stock options under the Internal Revenue Code of 1986, options which are not so qualified and stock appreciation rights. During fiscal 1996, the shareholders approved an amendment to the plan for an additional 16,000,000 shares to be made available for future grants of options. To date, the company has issued stock options but no stock appreciation rights under this plan:

The following summary presents information with regard to incentive options under the 1991 plan:

| | OPTIONS EXERCISABLE | | OPTIONS OUTSTANDING | |
|---|---|---|---|---|
| | MAXIMUM SHARES EXERCISABLE | WEIGHTED AVERAGE PRICE PER SHARE | SHARES UNDER OPTION | WEIGHTED AVERAGE PRICE PER SHARE |
| Balance at June 28, 1997 | 3,446,628 | $13.53 | 7,765,260 | $14.35 |
| Granted | | | 1,901,416 | 17.50 |
| Cancelled | | | (315,422) | 14.97 |
| Exercised | | | (841,462) | 13.50 |
| Balance at June 27, 1998 | 4,886,528 | 13.98 | 8,509,792 | 15.11 |
| Granted | | | 1,550,605 | 21.88 |
| Cancelled | | | (307,879) | 15.89 |
| Exercised | | | (982,769) | 14.11 |
| Balance at July 3, 1999 | 5,341,504 | 14.66 | 8,769,749 | 16.39 |
| Granted | | | 2,475,392 | 32.66 |
| Cancelled | | | (473,344) | 17.55 |
| Exercised | | | (1,156,063) | 14.71 |
| Balance at July 1, 2000 | 5,661,846 | $15.80 | 9,615,734 | $20.72 |

25

28

The options outstanding at July 1, 2000 under this plan have exercise prices ranging from $12.63 to $40.06 and have a weighted average remaining contractual life of 6.8 years.

Non-Employee Directors Stock Option Plan

The Non-Employee Directors Stock Option Plan adopted in fiscal 1996 permits the issuance of up to 400,000 shares of common stock to directors who are not employees of SYSCO. Under this plan options to purchase 4,000 shares of common stock at the fair market value on the date of the grant are granted to each non-employee director annually, provided certain earnings goals are met. As of July 1, 2000, options for 136,000 shares had been granted to nine non-employee directors under this plan, of which options for 128,000 shares are available for exercise. No further grants will be made under this plan, which was replaced by the Non-Employee Directors Stock Plan.

Non-Employee Directors Stock Plan

The Non-Employee Directors Stock Option Plan adopted in fiscal 1999 permits the issuance of up to 400,000 shares of common stock to directors who are not employees of SYSCO. Under this plan non-employee directors will receive a one time retainer stock award of 2,000 shares when first elected as a non-employee director and an annual automatic grant of options to purchase 4,000 shares of common stock provided certain earnings goals are met. As of July 1, 2000, options for 80,000 shares had been granted to ten non-employee directors under this plan, of which 39,990 shares are available for exercise.

Employees' Stock Purchase Plan

SYSCO has an Employees' Stock Purchase Plan which permits employees (other than directors) 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. During fiscal 2000, 910,376 shares of SYSCO common stock were purchased by the participants as compared to 945,711 purchased in fiscal 1999 and 825,129 purchased in fiscal 1998. The total number of shares which may be sold pursuant to the plan may not exceed 34,000,000 shares, of which 7,463,826 remained available at July 1, 2000.

Accounting Issues Relating to all Plans

SYSCO accounts for these plans under APB Opinion No. 25 and related interpretations under which no compensation cost has been recognized. Had compensation cost for these plans been determined using the fair value method of SFAS No. 123, SYSCO's pro forma net earnings and diluted earnings per share would have been $437,773,000 and $1.31 in fiscal 2000, $357,148,000 and $1.06 in fiscal 1999 and $292,824,000 and $0.86 in fiscal 1998. The disclosure requirements of SFAS No. 123 are applicable to options granted after 1995. The pro forma effects for fiscal 2000, 1999 and 1998 are not necessarily indicative of the pro forma effects in future years.

The weighted average fair value of options granted was $12.27 and $7.05 during fiscal 2000 and 1999, respectively. The fair value was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted average assumptions used for grants in fiscal 2000 and 1999, respectively; dividend yield of 1.20% and 1.65%; expected volatility of 23% in both years; risk-free interest rates of 6.1% and 5.1%; and expected lives of 8 years.

The weighted average fair value of employee stock purchase rights issued was $5.24 and $3.86 during fiscal 2000 and 1999, respectively. The fair value of the stock purchase rights was calculated as the difference between the stock price at date of issuance and the employee purchase price.





EMPLOYEE BENEFIT PLANS

SYSCO has defined benefit and defined contribution retirement plans for its employees. Also, the company contributes to various multi-employer plans under collective bargaining agreements.

The defined contribution 401(k) plan provides that under certain circumstances the company may make matching contributions of up to 50% of the first 6% of a participant's compensation. SYSCO's contribution to this plan was $15,899,000 in 2000, $5,813,000 in 1999 and $5,660,000 in 1998. The defined benefit pension plan pays benefits to employees at retirement using formulas based on a participant's years of service and compensation.

SYSCO also has a Management Incentive Plan that compensates key management personnel for specific performance achievements. The awards under this plan were $40,977,000 in 2000, $27,197,000 in 1999 and $20,478,000 in 1998 and were paid in both cash and stock. In addition to receiving benefits upon retirement under the company's defined benefit plan, participants in the Management Incentive Plan will receive benefits under a Supplemental Executive Retirement Plan (SERP). This plan is a nonqualified, unfunded defined benefit supplementary retirement plan. In order to meet its obligations under this plan, SYSCO maintains life insurance policies on the lives of the participants with carrying values of $76,480,000 at July 1, 2000 and $55,975,000 at July 3, 1999. SYSCO is the sole owner and beneficiary of such policies.

In addition to providing pension benefits, SYSCO provides certain health care benefits to eligible retirees and their dependents in the United States.

The funded status of the defined benefit plan is as follows:

| | PENSION BENEFITS | | OTHER POSTRETIREMENT PLANS | |
|---|---|---|---|---|
| | JULY 1, 2000 | JULY 3, 1999 | JULY 1, 2000 | JULY 3, 199 |
| Change in benefit obligation: | | | | |
| Benefit obligation at beginning of year | $393,119,000 | $354,646,000 | $ 2,072,000 | $ 1,781,000 |
| Service cost | 35,451,000 | 31,058,000 | 145,000 | 125,000 |
| Interest cost | 29,109,000 | 27,138,000 | 150,000 | 135,000 |
| Amendments | 13,568,000 | 197,000 | 1,486,000 | -- |
| Actuarial (gain) loss | (22,883,000) | (8,749,000) | (152,000) | 18,000 |
| Actual expenses | (3,041,000) | (2,418,000) | -- | -- |
| Settlements | (2,830,000) | -- | -- | -- |
| Total disbursements | (9,170,000) | (8,753,000) | (86,000) | 13,000 |
| Benefit obligation at end of year | 433,323,000 | 393,119,000 | 3,615,000 | 2,072,000 |
| Change in plan assets: | | | | |
| Fair value of plan assets at beginning of year | 330,441,000 | 287,482,000 | -- | -- |
| Actual return on plan assets | 32,838,000 | 38,871,000 | -- | -- |
| Employer contribution | 40,563,000 | 15,259,000 | 86,000 | (13,000 |
| Actual expenses | (3,041,000) | (2,418,000) | -- | -- |
| Total disbursements | (9,170,000) | (8,753,000) | (86,000) | 13,000 |
| Fair value of plan assets at end of year | 391,631,000 | 330,441,000 | -- | -- |
| Funded status | (41,692,000) | (62,678,000) | (3,615,000) | (2,072,000 |
| Unrecognized net actuarial (gain) loss | (12,042,000) | 10,866,000 | (3,346,000) | (3,388,000 |
| Unrecognized net (asset) obligation due to initial application of SFAS 87 | (1,967,000) | (2,813,000) | 1,994,000 | 2,147,000 |
| Unrecognized prior service cost | 12,581,000 | (1,612,000) | 2,003,000 | 589,000 |
| Accrued benefit cost | $(43,120,000) | $(56,237,000) | $(2,964,000) | $(2,724,000 |





The assumptions used to value obligations at year end were:

| | PENSION BENEFITS | | OTHER POSTRETIREME | |
|---|---|---|---|---|
| | JULY 1, 2000 | JULY 3, 1999 | JULY 1, 2000 | JUL |
| Weighted-average assumptions as of year end: | | | | |
| Discount rate | 8.00% | 7.50% | 8.00% | |
| Expected rate of return | 10.50% | 10.50% | -- | |

| | | | |
|---|---|---|---|
| Rate of compensation increase................. | 4.50% | 4.50% | -- |

A health care cost trend rate is not used in the calculations because SYSCO subsidizes the cost of postretirement medical coverage by a fixed dollar amount with the retiree responsible for the cost of coverage in excess of the subsidy, including all future cost increases.

The components of net pension and other postretirement benefit costs are as follows:

| | PENSION BENEFITS | | OTHER POSTRETIREMENT PL | |
|---|---|---|---|---|
| | JULY 1, 2000 | JULY 3, 1999 | JULY 1, 2000 | JULY 3, |
| Components of net periodic benefit cost: | | | | |
| Service cost............................. | $ 35,451,000 | $ 31,058,000 | $ 145,000 | $ 125,0 |
| Interest cost............................ | 29,109,000 | 27,138,000 | 150,000 | 135,0 |
| Expected return on plan assets............ | (34,168,000) | (29,723,000) | -- | |
| Amortization of prior service cost........ | (625,000) | (640,000) | 72,000 | 72,0 |
| Recognized net actuarial loss (gain)...... | 628,000 | 652,000 | (194,000) | (216,0 |
| Amortization of net transition obligation............................. | (847,000) | (847,000) | 153,000 | 153,0 |
| Net pension costs........................ | $ 29,548,000 | $ 27,638,000 | $ 326,000 | $ 269,0 |

Multi-employer pension costs were $23,540,000 and $22,375,000 in 2000 and 1999, respectively.

The projected benefit obligation and accumulated benefit obligation for the defined benefit pension plan were $365,934,000 and $319,067,000, respectively, as of July 1, 2000 and $340,398,000 and $294,366,000, respectively, as of July 3, 1999. The projected benefit obligation and accumulated benefit obligation for the SERP were $67,389,000 and $50,232,000, respectively, as of July 1, 2000 and $52,721,000 and $38,860,000, respectively, as of July 3, 1999.

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 position or results of operations of the company when ultimately concluded.

BUSINESS SEGMENT INFORMATION

The Company, through its 101 operating companies, provides food and other products to the foodservice or "food-prepared-away-from-home" industry. Each of our operating companies generally represents a separate operating segment. Under the provisions of SFAS No. 131 "Disclosures about Segments of an Enterprise and Related Information" (SFAS No. 131), the Company has aggregated its operating companies into four segments based upon the economic characteristics of each operating company, of which only Broadline and SYGMA are reportable segments as defined in SFAS No. 131. Broadline operating companies distribute a full line of food products and a wide variety of non-food products to both our traditional and chain restaurant customers. SYGMA operating companies distribute a full line of food products and a wide variety of non-food products to some of our chain restaurant customer locations. "Other" financial information is attributable to the Company's two other segments, including the Company's specialty produce and meat segments. The Company's Canadian operations are insignificant for geographical disclosure purposes.





The accounting policies for the segments are the same as those disclosed by the Company. 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 eliminate upon consolidation. Centrally incurred costs are allocated based upon the relative level of service used by each operating company.

| | YEAR ENDED | | |
|---|---|---|---|
| | JULY 1, 2000 | JULY 3, 1999 | JUNE 27, 1998 |
| Sales (in thousands): | | | |
| Broadline | $16,643,578 | $15,420,858 | $13,935,672 |
| SYGMA | 2,154,043 | 2,001,957 | 1,391,864 |
| Other | 534,750 | -- | -- |
| Intersegment sales | (29,103) | -- | -- |
| Total | $19,303,268 | $17,422,815 | $15,327,536 |

| | YEAR ENDED | | |
|---|---|---|---|
| | JULY 1, 2000 | JULY 3, 1999 | JUNE 27, 1998 |
| Earnings before income taxes and cumulative effect of accounting change (in thousands): | | | |
| Broadline | $800,524 | $666,031 | $585,940 |
| SYGMA | 5,182 | 12,567 | 13,673 |
| Other | 21,717 | -- | -- |
| Total segments | 827,423 | 678,598 | 599,613 |
| Unallocated corporate expenses | (89,815) | (84,711) | (67,120) |

| | | | |
|---|---|---|---|
| Total | $737,608 | $593,887 | $532,493 |

| | YEAR ENDED | | |
|---|---|---|---|
| | JULY 1, 2000 | JULY 3, 1999 | JUNE 27, 1998 |
| Depreciation and Amortization (in thousands): | | | |
| Broadline | $180,256 | $172,312 | $157,268 |
| SYGMA | 13,987 | 14,730 | 9,090 |
| Other | 2,577 | -- | -- |
| Total segments | 196,820 | 187,042 | 166,358 |
| Corporate | 23,841 | 17,963 | 14,876 |
| Total | $220,661 | $205,005 | $181,234 |



| | YEAR ENDED | | |
|---|---|---|---|
| | JULY 1, 2000 | JULY 3, 1999 | JUNE 27, 1998 |
| Capital Expenditures (in thousands): | | | |
| Broadline | $227,834 | $255,125 | $229,106 |
| SYGMA | 21,061 | 41,600 | 11,942 |
| Other | 7,583 | -- | -- |
| Total segments | 256,478 | 296,725 | 241,048 |
| Corporate | 9,935 | (10,038) | 18,305 |
| Total | $266,413 | $286,687 | $259,353 |

| | JULY 1, 2000 | JULY 3, 1999 | JUNE 27, 1998 |
|---|---|---|---|

| | | | |
|---|---|---|---|
| Assets (in thousands): | | | |
| Broadline | $3,302,796 | $3,149,670 | $2,931,415 |
| SYGMA | 180,811 | 150,516 | 109,392 |
| Other | 238,761 | -- | -- |
| Total segments | 3,722,368 | 3,300,186 | 3,040,807 |
| Corporate | 1,091,587 | 796,396 | 739,382 |
| Total | $4,813,955 | $4,096,582 | $3,780,189 |

The sales mix for the principal product categories during the three years ended July 1, 2000 is as follows (in thousands):

| | YEAR ENDED | | |
|---|---|---|---|
| | JULY 1, 2000 | JULY 3, 1999 | JUNE 27, 1998 |
| Medical supplies | $ 161,146 | $ 135,978 | $ 124,964 |
| Dairy products | 1,734,472 | 1,736,234 | 1,400,411 |
| Fresh and frozen meats | 3,311,323 | 2,638,032 | 2,338,705 |
| Seafood | 1,216,421 | 1,041,400 | 897,148 |
| Poultry | 1,968,632 | 1,825,018 | 1,520,024 |
| Frozen fruits, vegetables, bakery and other | 2,686,012 | 2,503,206 | 2,233,233 |
| Canned and dry products | 3,998,358 | 3,842,238 | 3,524,764 |
| Paper and disposable | 1,473,905 | 1,304,563 | 1,128,568 |
| Janitorial products | 325,513 | 300,682 | 269,996 |
| Equipment and smallwares | 469,419 | 461,596 | 439,428 |
| Fresh produce | 1,341,613 | 1,066,432 | 939,785 |
| Beverage products | 616,454 | 567,436 | 510,510 |
| Total | $19,303,268 | $17,422,815 | $15,327,536 |





QUARTERLY RESULTS (UNAUDITED)

Financial information for each quarter in the years ended July 1, 2000 and July 3, 1999:

| | QUARTER ENDED | | | |
|---|---|---|---|---|
| | OCTOBER 2 | JANUARY 1 | APRIL 1 | JULY 1 |
| | (IN THOUSANDS EXCEPT FOR SHARE DATA) | | | |

| | | | | |
|---|---|---|---|---|
| 2000 | | | | |
| Sales | $4,657,034 | $4,651,535 | $4,722,935 | $5,271,764 |
| Cost of sales | 3,793,200 | 3,771,998 | 3,829,148 | 4,255,205 |
| Operating expenses | 674,244 | 695,418 | 709,499 | 764,594 |
| Interest expense | 17,944 | 16,680 | 18,354 | 17,854 |
| Other, net | (189) | 1,754 | 88 | (131 |
| Earnings before income taxes | 171,835 | 165,685 | 165,846 | 234,242 |
| Income taxes | 66,156 | 63,789 | 63,851 | 90,183 |
| Earnings before accounting change | 105,679 | 101,896 | 101,995 | 144,059 |
| Accounting change | (8,041) | -- | -- | -- |
| Net earnings | $ 97,638 | $ 101,896 | $ 101,995 | $ 144,059 |
| Per share: | | | | |
| Diluted net earnings before accounting change | $ 0.32 | $ 0.31 | $ 0.31 | $ 0.43 |
| Diluted earnings accounting change effect | (0.02) | -- | -- | -- |
| Diluted net earnings | 0.29 | 0.31 | 0.31 | 0.43 |
| Cash dividends | 0.10 | 0.10 | 0.12 | 0.12 |
| Market price -- high/low | 36-30 | 41-32 | 41-26 | 43-34 |

| | QUARTER ENDED | | | |
|---|---|---|---|---|
| | SEPTEMBER 26 | DECEMBER 26 | MARCH 27 | JULY 3 (14 WEEKS) |
| | | (IN THOUSANDS EXCEPT FOR SHARE DATA) | | |
| 1999 | | | | |
| Sales | $4,192,630 | $4,246,675 | $4,164,877 | $4,818,633 |
| Cost of sales | 3,426,045 | 3,469,496 | 3,402,463 | 3,909,856 |
| Operating expenses | 607,812 | 616,899 | 625,111 | 697,444 |
| Interest expense | 16,931 | 18,397 | 18,414 | 19,097 |
| Other, net | 170 | 245 | (93) | 641 |
| Earnings before income taxes | 141,672 | 141,638 | 118,982 | 191,595 |
| Income taxes | 55,252 | 55,239 | 46,403 | 74,722 |
| Net earnings | $ 86,420 | $ 86,399 | $ 72,579 | $ 116,873 |
| Per share: | | | | |
| Diluted net earnings | $ 0.26 | $ 0.26 | $ 0.22 | $ 0.35 |
| Cash dividends | 0.09 | 0.09 | 0.10 | 0.10 |
| Market price -- high/low | 26-20 | 29-23 | 30-25 | 32-25 |
| PERCENTAGE INCREASES -- 2000 VS. 1999: | | | | |
| Sales | 11% | 10% | 13% | 9% |
| Earnings before income taxes | 21 | 17 | 39 | 22 |
| Earnings before accounting change | 22 | 18 | 41 | 23 |
| Net earnings | 13 | 18 | 41 | 23 |
| Diluted earnings per share before accounting change | 23 | 19 | 41 | 23 |