

Edgar Filing: SYSCO CORP - Form 10-Q/A

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

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

FORM 10-Q/A

(Mark One)

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

For the quarterly period ended September 30, 2000

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission file number 1-6544

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

Delaware  
(State or other jurisdiction of  
incorporation or organization)

74-1648137  
(IRS employer  
identification number)

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

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

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

334,222,489 shares of common stock were outstanding as of October 27, 2000.

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EXPLANATORY NOTE

We are filing this amendment to Form 10-Q to include in Item 2 disclosure about operating segments pursuant to Statement of Financial Accounting Standards No. 131.

PART I. FINANCIAL INFORMATION

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

Liquidity and Capital Resources

The liquidity and capital resources discussion included in Management's Discussion and Analysis of Financial Condition and Results of Operations of the Company's Fiscal 2000 Annual Report on Form 10-K remains applicable, other than as described below, and should be read in conjunction with the following discussion.

In Fiscal 1992, the Company began a common stock repurchase program which continued into the first quarter of Fiscal 2000, resulting in the cumulative repurchase of approximately 80,000,000 shares of common stock.

The Board of Directors authorized the repurchase of an additional 8,000,000 shares in July 1999. Under this latest authorization, 4,899,600 shares were purchased through September 30, 2000, including 681,200 shares bought in the first quarter of Fiscal 2001. The increase in treasury stock purchases in the period ended September 30, 2000 primarily reflects shares repurchased for acquisitions. In November 2000, the Board authorized the repurchase of an additional 8,000,000 shares.

As of September 30, 2000, SYSCO's borrowings under its commercial paper program were \$99,637,000. Such borrowings were \$255,248,000 as of October 28, 2000. During the 13-week period ended September 30, 2000, commercial paper and short-term bank borrowings ranged from approximately \$157,631,000 to \$291,977,000.

Long-term debt to capitalization ratio was 31.8% at September 30, 2000, less than the 35% to 40% target ratio, due to strong cash flow from operations and relatively low share repurchases.

Results of Operations

Sales and cost of sales for the first quarter increased approximately 15.1% and 14.0%, respectively, over the same quarter of the prior year. Real sales growth for the quarter was 8.2%, after adjusting overall sales growth by 5.25% for acquisitions and 1.69% for food cost inflation primarily due to higher costs for fresh and frozen meat and paper and disposables.

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Operating expenses for the periods presented remained approximately the same as a percent of sales.

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Interest expense in the current period decreased over the prior period due to decreased borrowings.

Income taxes for the periods presented reflect an effective rate of 38.25% this year compared to 38.5% last year.

Pretax earnings and net earnings before the accounting change increased 35.7% and 36.2%, respectively, over the prior year. The increases were due to the factors discussed above as well as the Company's success in its continued efforts to increase sales to the Company's territorial street customers and increasing sales of SYSCO brand products, both of which generate higher margins.

Basic and diluted earnings per share before the accounting change increased 34.4% over the same period last year due to the factors discussed above.

A reconciliation of basic and diluted earnings per share after the accounting change follows.

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

|   | 13 - Week Period Ended |               |
|---|------------------------|---------------|
|   | Sept. 30, 2000         | Oct. 2, 1999  |
|   | -----                  | -----         |
| Numerator:                                    |                        |               |
| Numerator for basic earnings per share --     |                        |               |
| income available to common shareholders       | \$143,955,000          | \$ 97,638,000 |
|   | =====                  | =====         |
| Denominator:                                  |                        |               |
| Denominator for basic earnings per share --   |                        |               |
| weighted-average shares                       | 332,025,934            | 328,925,219   |
| Effect of dilutive securities:                |                        |               |
| Employee and director stock options           | 5,066,831              | 4,561,936     |
|   | -----                  | -----         |
| Denominator for diluted earnings per share -- |                        |               |
| adjusted weighted-average shares and          |                        |               |
| assumed conversions                           | 337,092,765            | 333,487,155   |
|   | =====                  | =====         |
| Basic earnings per share                      | \$ 0.43                | \$ 0.30       |
|   | =====                  | =====         |

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|                            |         |         |
|----------------------------|---------|---------|
| Diluted earnings per share | \$ 0.43 | \$ 0.29 |
|                            | =====   | =====   |

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### 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, 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 in the Company's Fiscal 2000 Annual Report on Form 10-K. 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.

|                                  | 13 Weeks Ended |              |
|----------------------------------|----------------|--------------|
|                                  | Sept. 30, 2000 | Oct. 2, 1999 |
| Sales (in thousands, unaudited): |                |              |
| Broadline                        | \$ 4,512,248   | \$ 4,085,863 |
| SYGMA                            | 600,246        | 533,192      |
| Other                            | 266,550        | 39,670       |
| Intersegment sales               | (18,870)       | (1,691)      |
|                                  | -----          | -----        |
| Total                            | \$ 5,360,174   | \$ 4,657,034 |
|                                  | =====          | =====        |

| 13 Weeks Ended |              |
|----------------|--------------|
| Sept. 30, 2000 | Oct. 2, 1999 |
|                |              |

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|  | -----      | -----      |
|--|------------|------------|
| Earnings before income taxes and cumulative effect of accounting change (in thousands, unaudited): |            |            |
| Broadline  | \$ 247,052 | \$ 190,224 |
| SYGMA  | 3,891      | 1,679      |
| Other  | 5,770      | 1,904      |
|  | -----      | -----      |
| Total segments   | 256,713    | 193,807    |
| Unallocated corporate expenses   | (23,588)   | (21,972)   |
|  | -----      | -----      |
| Total  | \$ 233,125 | \$ 171,835 |
|  | =====      | =====      |

|                        | Sept. 30, 2000 | July 1, 2000 | Oct. 2, 1999 |
|------------------------|----------------|--------------|--------------|
|                        | -----          | -----        | -----        |
|                        | (Unaudited)    | (Audited)    | (Unaudited)  |
| Assets (in thousands): |                |              |              |
| Broadline              | \$ 3,442,040   | \$ 3,302,796 | \$ 3,228,344 |
| SYGMA                  | 150,348        | 180,811      | 166,575      |
| Other                  | 284,221        | 238,761      | 40,087       |
|                        | -----          | -----        | -----        |
| Total segments         | 3,876,609      | 3,722,368    | 3,435,006    |
| Corporate              | 1,054,901      | 1,091,587    | 963,984      |
|                        | -----          | -----        | -----        |
| Total                  | \$ 4,931,510   | \$ 4,813,955 | \$ 4,398,990 |
|                        | =====          | =====        | =====        |

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Broadline Segment

Broadline segment sales increased by 10.4% for the thirteen weeks ended September 30, 2000, as compared to the thirteen weeks ended October 2, 1999. This increase was due primarily to increased sales to marketing associate-served and multi-unit customers as well as increased sales of SYSCO brand products. Broadline segment sales as a percentage of total SYSCO sales decreased from 88% for the thirteen weeks ended October 2, 1999 to 84% for the thirteen weeks ended September 30, 2000. This decrease is due primarily to acquisitions of produce and specialty meat companies.

Pretax earnings for the Broadline segment increased by 29.9% for the thirteen weeks ended September 30, 2000 as compared to the thirteen weeks ended October 2, 1999. The increase in pretax earnings was primarily a result of increases in sales described above and sales of SYSCO brand products, both of which generate higher margins.

SYGMA Segment

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SYGMA segment sales increased by 12.6% for the thirteen weeks ended September 30, 2000, as compared to the thirteen weeks ended October 2, 1999. This increase was due primarily to sales growth in SYGMA's existing customer base. SYGMA segment sales as a percentage of total SYSCO sales decreased from 11.4% for the thirteen weeks ended October 2, 1999 to 11.2% for the thirteen weeks ended September 30, 2000.

Pretax earnings for the SYGMA segment increased by 231.7% for the thirteen weeks ended September 30, 2000, as compared to the thirteen weeks ended October 2, 1999. The increase in pretax earnings was primarily a result of operating efficiencies and improved labor costs realized.

### 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.

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### Acquisitions

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 Georgia based distributor 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 North America based distributor of produce.

The transactions were accounted for using the purchase method of accounting and the accompanying financial statements for the 13 weeks ended September 30, 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 consolidated 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 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 Pronouncements

In the first quarter of Fiscal 2001, SYSCO adopted SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The adoption of SFAS No. 133 did not have a significant effect on SYSCO's consolidated results of operations or financial position.

In December 1999, the Securities and Exchange Commission staff released

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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.

In September 2000, the FASB issued its final consensus on Emerging Issues Task Force Issue No. 00-10, "Accounting for Shipping and Handling Fees and Costs" (EITF 00-10). SYSCO is required to and will adopt EITF 00-10 in the fourth quarter of Fiscal 2001 and believes that adoption will have no effect on its consolidated results of operations or financial position.

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### Forward-Looking Statements

Statements made herein regarding continuation of the share repurchase program and SYSCO's market risks are forward-looking statements under the Private Securities Litigation Reform Act of 1995. These statements involve risks and uncertainties and are based on current expectations and management's estimates; actual results may differ materially. Share repurchases could be affected by market prices of the Company's stock as well as management's decision to utilize its capital for other purposes. The effect of market risks could be impacted by future borrowing levels and certain economic factors, such as interest rates. Those risks and uncertainties that could impact these statements include the risks relating to the foodservice industry's relatively low profit margins and sensitivity to economic conditions, SYSCO's leverage and debt risks and other risks detailed in the Company's Fiscal 2000 Annual Report on Form 10-K.

## PART II. OTHER INFORMATION

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### Item 6. Exhibits and Reports on Form 8-K

#### (a) Exhibits.

- 3(a) Restated Certificate of Incorporation, incorporated by reference to Exhibit 3(a) to Form 10-K for the year ended June 28, 1997 (File No. 1-6544).
- 3(b) Bylaws, as amended May 12, 1999, incorporated by reference to Exhibit 3(b) to Form 10-K for the year ended July 3, 1999 (File No. 1-6544).
- 3(c) Form of Amended Certificate of Designation, Preferences and Rights of Series A Junior Participating Preferred Stock, incorporated by reference to Exhibit 3(c) to Form 10-K for the year ended June 29, 1996 (File No. 1-6544).

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- 3(d) Certificate of Amendment of Certificate of Incorporation increasing authorized shares, incorporated by reference to Exhibit 3(d) to Form 10-Q for the quarter ended January 1, 2000 (File No. 1-6544).
- 4(a) Sixth Amendment and Restatement of Competitive Advance and Revolving Credit Facility Agreement dated May 31, 1996, incorporated by reference to Exhibit 4(a) to Form 10-K for the year ended June 27, 1996 (File No. 1-6544).
- 4(b) Agreement and Seventh Amendment to Competitive Advance and Revolving Credit Facility Agreement dated as of June 27, 1997, incorporated by reference to Exhibit 4(a) to Form 10-K for the year ended June 28, 1997 (File No. 1-6544).
- 4(c) Agreement and Eighth Amendment to Competitive Advance and Revolving Credit Facility Agreement dated as of June 22, 1998, incorporated by reference to Exhibit 4(c) to Form 10-K for the year ended July 3, 1999 (File No. 1-6544).
- 4(d) Senior Debt Indenture, dated as of June 15, 1995, between Sysco Corporation and First Union National Bank of North Carolina, Trustee, incorporated by reference to Exhibit 4(a) to Registration Statement on Form S-3 filed June 6, 1995 (File No. 33-60023).

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- 4(e) First Supplemental Indenture, dated June 27, 1995, between Sysco Corporation and First Union National Bank of North Carolina, Trustee, as amended, incorporated by reference to Exhibit 4(e) to Form 10-K for the year ended June 29, 1996 (File No. 1-6544).
- 4(f) Second Supplemental Indenture, dated as of May 1, 1996, between Sysco Corporation and First Union National Bank of North Carolina, Trustee, as amended, incorporated by reference to Exhibit 4(f) to Form 10-K for the year ended June 29, 1996 (File No. 1-6544).
- 4(g) Third Supplemental Indenture, dated as of April 25, 1997, between Sysco Corporation and First Union National Bank of North Carolina, Trustee, incorporated by reference to Exhibit 4(g) to Form 10-K for the year ended June 28, 1997 (File No. 1-6544).
- 4(h) Fourth Supplemental Indenture, dated as of April 25, 1997, between Sysco Corporation and First Union National Bank of North Carolina, Trustee, incorporated by reference to Exhibit 4(h) to Form



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10-K for the year ended June 28, 1997 (File No. 1-6544).

- 4 (i) Fifth Supplemental Indenture, dated as of July 27, 1998, between Sysco Corporation and First Union National Bank, Trustee, incorporated by reference to Exhibit 4(h) to Form 10-K for the year ended June 27, 1998 (File No. 1-6554).
- 4 (j) Agreement and Ninth Amendment to Competitive Advance and Revolving Credit Facility Agreement dated as of December 1, 1999, incorporated by reference to Exhibit 4(j) to Form 10-Q for the quarter ended January 1, 2000 (File No. 1-6544).
- 10 (a) Second Amendment dated as of May 10, 2000, to the Fifth Amended and Restated SYSCO Corporation Supplemental Executive Retirement Plan, incorporated by reference to Exhibit 10(a) to Form 10-Q for the quarter ended September 30, 2000 filed on November 13, 2000.
- 10 (b) Second Amendment dated as of May 10, 2000, to Amended and Restated SYSCO Corporation Executive Deferred Compensation Plan, incorporated by reference to Exhibit 10(b) to Form 10-Q for the quarter ended September 30, 2000 filed on November 13, 2000.
- 10 (c) First Amendment dated as of May 10, 2000, to Amended and Restated SYSCO Corporation Board of Directors Deferred Compensation Plan, incorporated by reference to Exhibit 10(c) to Form 10-Q for the quarter ended September 30, 2000 filed on November 13, 2000.

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- 10 (d) First Amendment, dated September 1, 2000, to the Executive Compensation Adjustment Agreement between Sysco and Charles H. Cotros, incorporated by reference to Exhibit 10(d) to Form 10-Q for the quarter ended September 30, 2000 filed on November 13, 2000.
- 15 (a) Letter from Arthur Andersen LLP dated November 10, 2000, re: unaudited financial statements, incorporated by reference to Exhibit 15(a) to Form 10-Q for the quarter ended September 30, 2000 filed on November 13, 2000.
- \*15 (b) Acknowledgement letter from Arthur Andersen LLP.
- 27 Financial Data Schedule, incorporated by reference to Exhibit 27 to Form 10-Q for the quarter ended September 30, 2000 filed on November 13, 2000.

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\* Filed herewith.

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(b) Reports on Form 8-K:

On August 3, 2000, the Company filed a Form 8-K to attach a press release dated August 2, 2000 announcing results of operations for the fiscal year ended July 1, 2000 (File No. 1-6544).

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report on Form 10-Q/A to be signed on its behalf by the undersigned thereunto duly authorized.

SYSCO CORPORATION  
(Registrant)

By /s/ John K. Stubblefield, Jr.  
-----  
John K. Stubblefield, Jr.  
Executive Vice President,  
Finance & Administration

Date: May 14, 2001

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INDEX TO EXHIBITS

| EXHIBIT<br>NUMBER<br>----- | DESCRIPTION<br>-----  |
|----------------------------|---|
| 3 (a)                      | Restated Certificate of Incorporation, incorporated by reference to Exhibit 3(a) to Form 10-K for the year ended June 28, 1997 (File No. 1-6544). |
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